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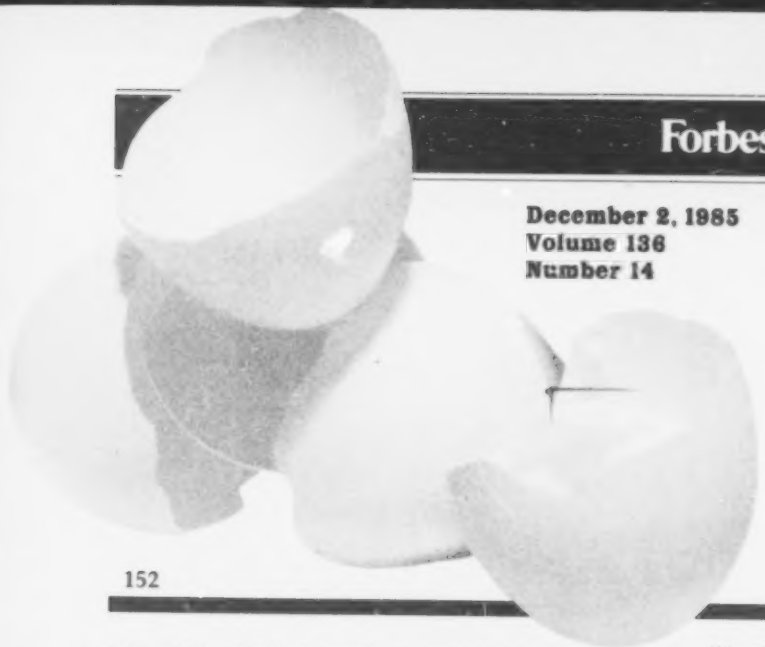

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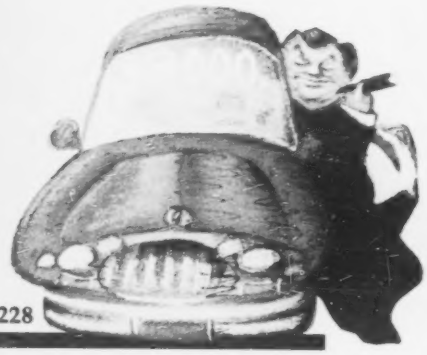

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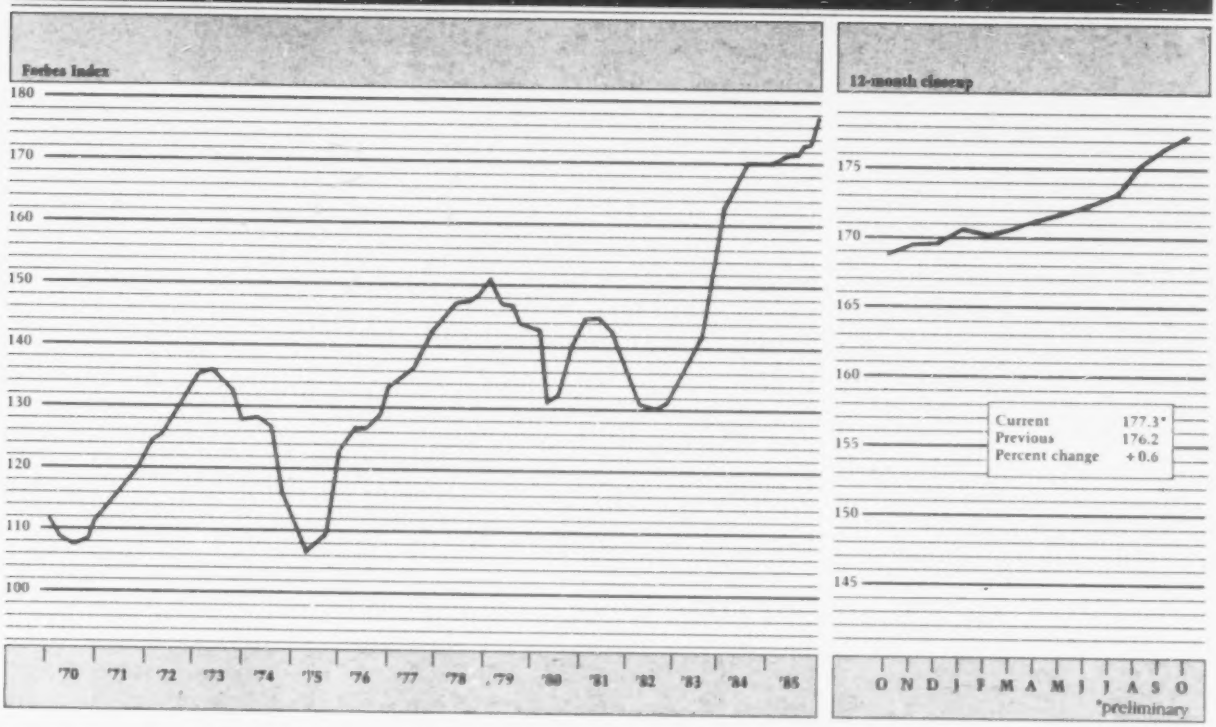
The Forbes Index

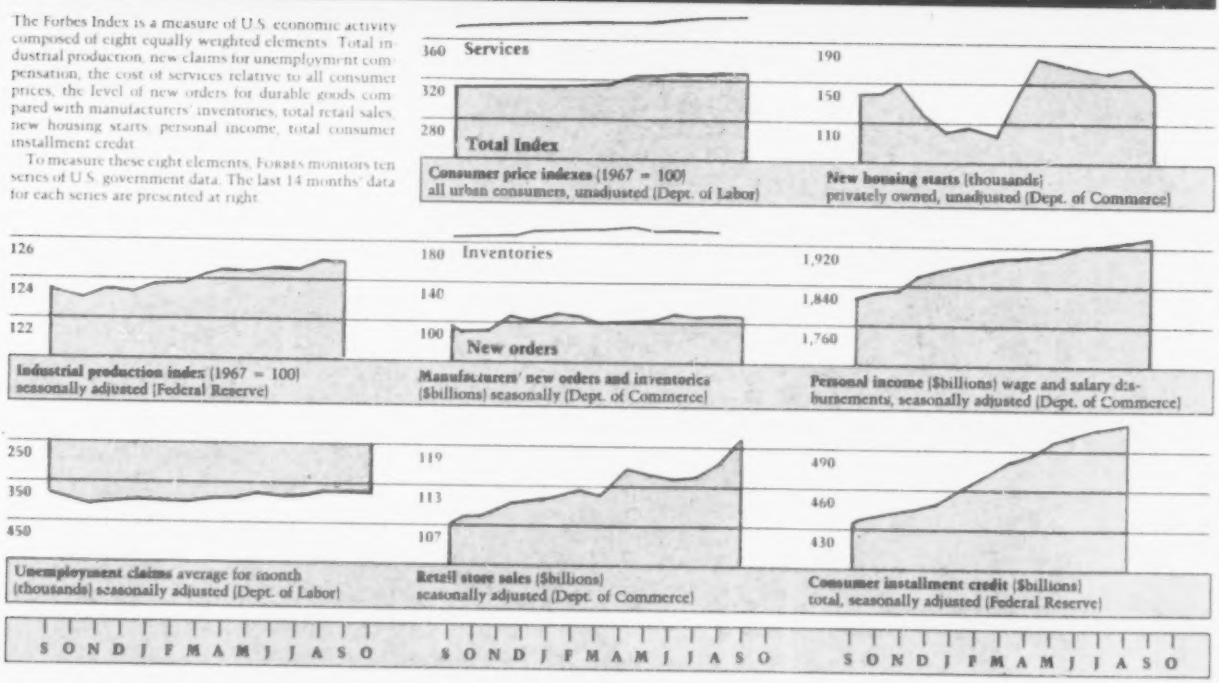


The bad news isn't so bad. New unemployment claims, for the firs time in four months, are up from the previous month, but only by 0.2%. Overall, the Forbes Index is up 4.6% since the start of the year and shows little sign of abating. Figures for manufacturers' inventories will be released within the next few days and are expected to show a decline for the third straight month. At least part of this decrease, however, comes from Detroit's fall incentive programs, which resulted in heavy liquidation of auto inventories. Car sales have slowed down since the promotions ended, so stockpiles will probably return to more normal levels.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.


360 Services
320
280
Total Index
190
150
110
Consumer price indexes (1967 = 100) all urban consumers, unadjusted (Dept. of Labor)
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)
126
124
122
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)
180 Inventories
140
100
New orders
Manufacturers' new orders and inventories ($billions) seasonally (Dept. of Commerce)
1,920
1,840
1,760
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)
250
150
450
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)
119
113
107
Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)
490
460
430
Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)
S O N D J F M A M J J A S O
S O N D J F M A M J J A S O
S O N D J F M A M J J A S O

Waste Management's Vulcanus II incineration ship at work in the North Sea
What wastes you can't dump, you may have to burn. And you can burn at sea as well as on land.

Fred Ward/Black Star

The U.S. hazardous waste problem is exploding even as the means of solving it dwindle. There are answers, but the alternatives are few and the tradeoffs painful.

Risky business

By James Cook

THE ONE THING a big company caught burning toxic waste is not entitled to is surprise at the furor that ensues when the fact becomes known. It happened recently, for example, to no less than General Motors. GM was accused of burning thousands of gallons of cancer-producing toxic wastes at its Livonia manufacturing plant in suburban Detroit, possibly spewing into the air deadly PCBs, dioxins and other chemicals of that ilk. The incident set off alarums at both Michigan and Ontario environmental agencies, generating the kind of press that makes for public relations nightmares.

It was, as it happens, no fault of GM's. It had bought 500,000 gallons of boiler fuel from Can-Flow Services across the river in Sarnia, Ont., and by accident or design Can-Flow had mixed anywhere between 50,000 and 200,000 gallons of toxic waste into the brew. But it's just the sort of accident that has made hazardous waste one of the hottest political issues in the country these days. It was the central issue in last month's gubernatorial contest in New Jersey and in local campaigns beyond counting. The issue has torn Congress into bitter factions over the extension of the five-year-old Superfund for cleaning up environmental hazards.

Politically, it's an issue with only one side. Nobody in Congress, or in New Jersey, is indifferent to the problem of hazardous waste. Nor is there any real confusion about what these wastes are or the hazards connected with them. They are substances, over 450 at last count, mainly the by-products of industrial processes, that pose a threat to public health and safety—most commonly because they are linked with cancer and similar life-threatening ailments. But there is controversy all the same. It's over what should be done about hazardous wastes and how much money should be committed to doing it.

The problem comes not just from wastes currently being generated but from those improperly disposed of since the industrial revolution began more than a century ago. Such wastes range from lead to mercury, from benzene to dioxin, and their danger comes mainly from improper disposal—by imperfect (and illegal) incineration (as at GM's Livonia plant) that contaminates the air or by improper storage in ponds, wells or landfills that can contaminate groundwater.

These hazards are anything but academic. In West Milford, N.J., to

recall one notorious example, the local Teamsters representative offered the town some waste oil to tame the dust on its backcountry roads. Free of charge. The oil turned out to be laced with highly toxic PCBs. In saving hundreds of dollars on oil, the town wound up spending thousands to dig up a 1.5-mile stretch of road it had applied the oil to. And West Milford was lucky. Residents of Times Beach, Mo., after a similar experience, last year had to abandon their town.

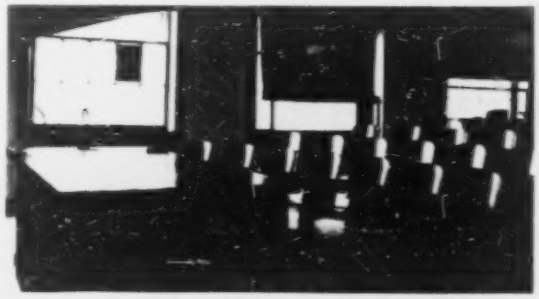
West Milford's benefactor was Bayonne's mob-connected Sampson Tank Cleaning Co. But how do you explain Times Beach? Its supplier was a legitimate local businessman who didn't know what he was doing. Elsewhere the problem is more than that. Says the Environmental Protection Agency's director of enforcement, Thomas Gallagher: "It costs between $100 and $200 to dispose of a 55-gallon drum legally. If a generator or a crooked transporter will do it for $50, everybody makes money."

Such environmental opportunism is not limited to the mob or to amateurs. Rollins Environmental Services once mixed some hazardous waste with crude oil and shipped it to an Ashland Oil refinery in Kentucky. The refinery was so badly damaged that Ashland sued. Browning-Ferris Industries once mixed nitrobenzene with oil and gave away the resulting brew as a surfacing agent. Former Texas congressman Bob Eckhardt once calculated that improper disposal could have turned the estimated 13 cents a gallon that BFI might have lost disposing of the waste in a landfill into a possible 31-to-49-cents-a-gallon profit. The EPA got after Waste Management last winter alleging, among other things, that the company saved $20 million in incineration costs by mixing PCBs with recycled oil and selling it in the Midwest for heating and road-oiling purposes. Waste Management, making no admissions of guilt or innocence, paid a $2.5 million fine and signed a consent decree.

Are such examples mere anomalies? Eckhardt, for one, has had his doubts. "In view of the enormous economic incentive for improper disposal of these toxic materials," he says, "only a strong corporate ethic pervading all levels of management or a very effective regulatory system could prevent such materials from escaping into the environment and threatening the public health."

Until recently, at least, the U.S. hazardous waste industry had neither. Indeed, until 1976, when Congress

Corporate giving.
Without it, a lot of important things might go out of business.



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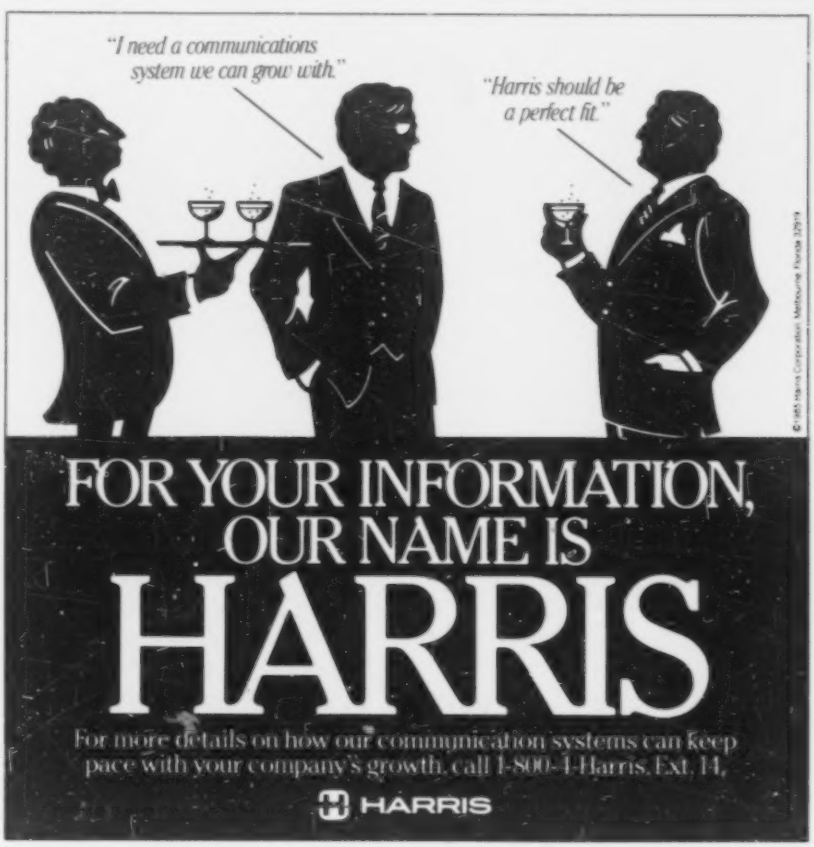
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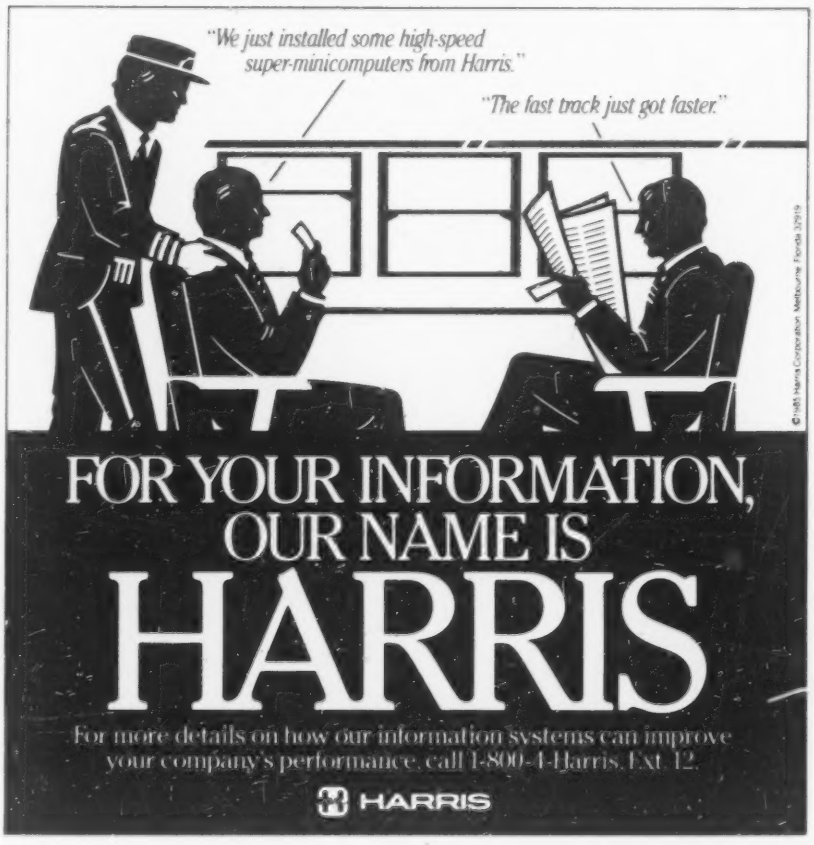
enacted the Resource Conservation & Recovery Act (RCRA), there were no rules at all. What has happened since then in the regulation of hazardous waste amounts to an economic as well as an environmental revolution. What had always been a commodity business—solid waste disposal—became a specialty business overnight. "When we did the Ford plant," one Harold Kaufman, a former garbageman turned FBI informant, recalls, "the sludge was going for $2 a yard. With the stroke of a pen, we raised the price to between $35 and $85 a yard. We commingled the sludge with shale from Chevron, and the New Jersey [Department of Environmental Protection] allowed us to take this to a regular landfill, which we did for $3.75 a yard. In less than six months, the company made $600,000." Haz-

What had always been a commodity business—solid waste disposal—became a specialty business overnight. Hazardous waste was not just a new business. It was a bonanza.

ardous waste was not just a new business. It was a bonanza.

The industries that generate hazardous waste in the U.S.—primarily chemicals, mining and petroleum—usually dump it in pits or mines or landfills, hold it in ponds or lagoons or storage tanks or, less frequently, dispose of it in public 'andfills. And, up to a point, quite properly. Waste can best be disposed of at the point of production, before it gets commingled with other substances, so that all but 4% of the estimated 265 million tons of waste generated each year is stored or disposed of on site. The rest is treated or disposed of mainly in commercial landfills or incinerators by subsidiaries of Waste Management (which claims 40% of the business), Browning-Ferris Industries and Genstar, or by independents like Rollins Environmental Services, International Technology and Environmental Systems *(see table, p. 118).*

Altogether, the business runs around $5 billion a year, of which only a quarter goes to the commercial operators. But the business is growing fast—from $1.2 billion in 1980 to $3.5 billion in 1984. A study by the Congressional Budget Office figures it could easily reach $10 billion by 1990, with the bulk of the gain going to the commercial operators.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EPA inspectors cleaning up at dioxin-contaminated Times Beach, Mo. Dupuy/Black Star

A legitimate businessman didn't know what he was doing.

The market is growing more because of increased regulation than increased volume. Whereas EPA originally established strict disposal requirements for some 300 different substances, it now regulates over 450. And where originally only large waste generators were regulated, a year ago Congress put most smaller waste generators—dry cleaning etablishments, gasoline stations—under regulation as well, and so enlarged the commercial market by close to 8%. As regulation grows increasingly stringent, waste generators of all sizes are more often turning to commercial operators to do the job.

This is no mom-and-pop affair, as garbage collection often is. It's a highly specialized business requiring skills, technical sophistication and, most of all, capital. Landfills cost $5 million or more to get into operation, and high-temperature incinerators can cost $30 million.

It's also a national business—unlike solid waste—and a service valued highly enough to justify shipping waste generated in Massachusetts to a landfill in Alabama, or from New York to an incinerator in Chicago. The big waste management companies control the bulk of the commercial disposal sites—landfills, deep wells or incinerators. Thousands of broker-haulers, some legitimate, some not, collect the waste and dispose of it—legitimately if they can, illegitimately if they have to.

Though environmental experts once estimated substantial quantities were dumped illegally, nobody really knew. Nobody knows now. EPA thinks it's less than 10%, but whatever the percentage, it is almost certainly on the rise, as small waste generators now coming under regulation for the first time find the economic penalty of proper disposal burdensome. "The incentives for illegal disposal," says EPA's Gallagher, "are going to increase geometrically."

The financial rewards are now so tempting that even the mob has plenty of independent competition—from sleazy businessmen who don't scruple to make an environmentally unsound dollar, from once-legitimate businessmen who would rather not know how the waste is disposed of, from underlings in the big corporations who score brownie points by keeping their disposal costs down.

Environmental protection agencies on both the state and federal level have set up elaborate tracking procedures to assure that hazardous wastes are disposed of properly, but circumventing them is easy. You just falsify the manifest. That's how Ciba-Geigy, indicted in New Jersey in October, was charged with having dumped toxic wastes illegally for more than a decade. And, until EPA began tightening the rules last year, once you crossed territorial jurisdictions, anything went. Says Jeremiah B. McKenna, chief counsel to New York's Select Committee on Crime: "Canadian waste is dumped in the U.S. The EPA stops looking at the border. You take New York waste and dump it in New Jersey. Take Jersey and dump it in New York. Nobody tracks it. You have left state jurisdiction."

Whether unscrupulous or actually mob-dominated, outfits that make a business of improperly disposing of toxic wastes have their own rules. "It's not in organized crime's interest," says Ronald Goldstock, head of the New York State Organized Crime Task Force, "to mix the toxic in with the solid waste. It's too big a loss to take, if you dumped toxic waste in a landfill and lost it [through government action]. They're going to dispose of it in other ways—mix it with oil or cart it outside their traditional areas."

It's now illegal everywhere in the U.S. to mix waste with recycled oil, but that isn't enough to stop the business. In New Jersey members of the Grungo family will be retried on charges of selling contaminated No. 4 oil in five states, from Maryland to Massachusetts, to heat apartments, office buildings, industries, schools and churches.

"All you have to do is stand on the George Washington or Verrazano bridges and you'll see these trucks lumbering across," says McKenna. "We called up one fuel oil dealer at the height of the season, and they were offering us fuel oil at substantially below market. The beauty is they are getting paid twice—to take away the toxics and also to provide the oil."

All too often, everybody's in it to-

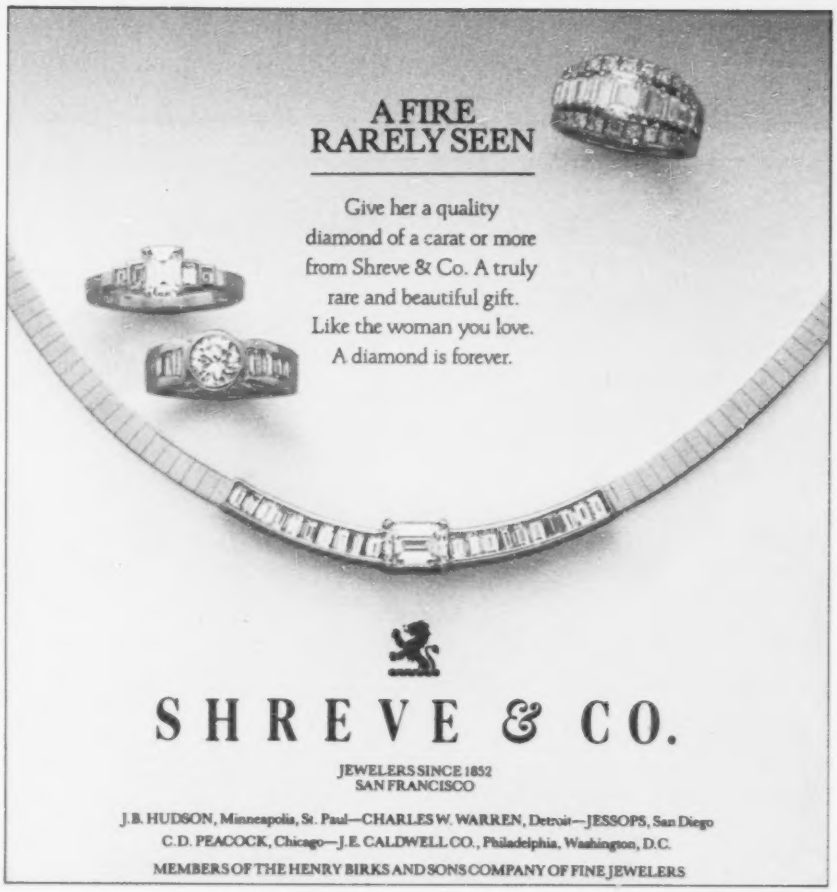
Environmental protection agencies have set up elaborate tracking procedures to assure hazardous wastes are disposed of properly. But circumventing them is easy. You falsify the manifest.

gether—sleazy operators and great corporations alike. Take Russell Mahler, a Connecticut millionaire. Through 11 companies, Mahler handled hazardous waste for at least 14 major corporations, blue-chip customers like Chrysler, United Technologies, Public Service Electric & Gas and Ingersoll-Rand.

Mahler had no adequate disposal facilities of his own, so he bribed the superintendent of New York City's landfills, John Cassiliano, to let him dump millions of gallons of hazardous wastes in with the garbage, polluting the landfill and contaminating the groundwater that ran underneath it. Eventually Mahler was caught and went to jail. So did Cassiliano.

But the responsibility didn't end there. Confronted with millions of dollars in cleanup costs, New York City has now indicted 14 of Mahler's corporate customers, charging that they knew, or should have known, that Mahler was disposing of their wastes improperly. "According to Mahler, one company paid 10 cents a gallon to dispose of a particular waste," says McKenna, "but it costs $1 a gallon to neutralize it before you can even begin to dispose of it."

The cost of disposing of new waste is as nothing beside the cost of cleaning up those thousands of hazardous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Cleaning up

They run landfills and storage sites, they incinerate, they treat waste, they stabilize it chemically. They serve particular industries or the world at large. But they make money, most of them, and good money, in hazardous waste. The table lists some of the major players.

Company	Revenues ($mil)	Net income ($mil)	Recent price	P/E	Debt/ equity	—Latest 12-month— net profit margin	ROE	5-year average ROE	5-year average sales growth	5-year average EPS growth
Browning-Ferris Inds	$1,000.8	$89.2	54	17.8	26%	9.4%	25.0%	20.0%	16.2%	18.0%
Environmental Systems	33.5	1.3	20¾	22.1	137	9.9	NM	59.4[1]	78.2	40.2
Environmental Testing & Cert	9.4	0.4	24	NM	20	12.4	28.7	NA	257.2	NM
Genstar	1,922.8	131.7	19⅝	7.2	117	6.5	18.6	6.3	0.0	NM
International Technology	143.7	6.3	21¾	26.2	81	5.3	15.0	14.0	26.5	10.0
IU International	2,550.1	7.9	12⅜	NM	123	NM	NM	15.7	–1.8	–29.0
Research-Cottrell	400.9	3.4	25⅛	NM	29	NM	NM	7.6	4.8	–14.5
Rollins Environmental Services	69.4	6.5	14	26.4	7	11.1	24.7	12.9[2]	21.8	26.5
Tacoma Boatbuilding[3]	102.3	–32.4	1¼	NM	NM	NM	NM	NM	–1.7	NM
Waste Management	1,314.8	142.5	64½	20.2	55	10.5	17.6	19.3	26.6	22.5
Witco	1,495.8	62.6	37½	9.6	39	3.9	16.1	14.8	8.0	4.7

[1]Three years. [2]Two years. [3]Company filed for Chapter 11. NA: Not available, not applicable. NM: Not meaningful. *Sources: S&P's Stockpack-II; Forbes.*

waste sites that threaten the public health and safety, some built up over a half-century or more. Not just those hellholes that have entered the mythology of late-20th-century environmentalism—New York's Love Canal, Kentucky's Valley of the Drums, California's Stringfellow Acid Pits—but 60 or more solid waste landfills where garbage and toxics were commingled over the years. It's a massive undertaking, with 541 sites on the EPA priority list alone and as many as 2,000 likely to need urgent attention.

They are the reason Congress created the $1.6 billion Superfund five years ago—financed largely by taxes on petroleum and feedstock chemicals and designed to provide the front money for cleaning up spills and other emergency situations. The first major Superfund project, for instance, was launched after the 1981 explosion at General Disposal's drum storage site in Los Angeles. Superfund laid out $1.4 million to get the cleanup started, and Inmont Corp. assumed responsibility for the $700,000 needed to complete it.

The U.S. surely needed some mechanism for financing cleanup situations where companies were insolvent, bankrupt or defunct. The Stringfellow Quarry Corp. is a case in point. It went bankrupt in 1974 after 33.9 million gallons of hazardous wastes were discharged into the Stringfellow Acid Pits—unlined evaporation ponds—by over 200 parties. Bankrupt, too, is New Jersey's Lone Pine Landfill, which continues to leach toxic chemicals into the headwaters of the Manasquan River, where the state was developing a $40 million reservoir project. Lone Pine had only $100,000 in assets after it was closed in 1979, not enough even to pay the cost of covering the waste with fill. And it still isn't cleaned up.

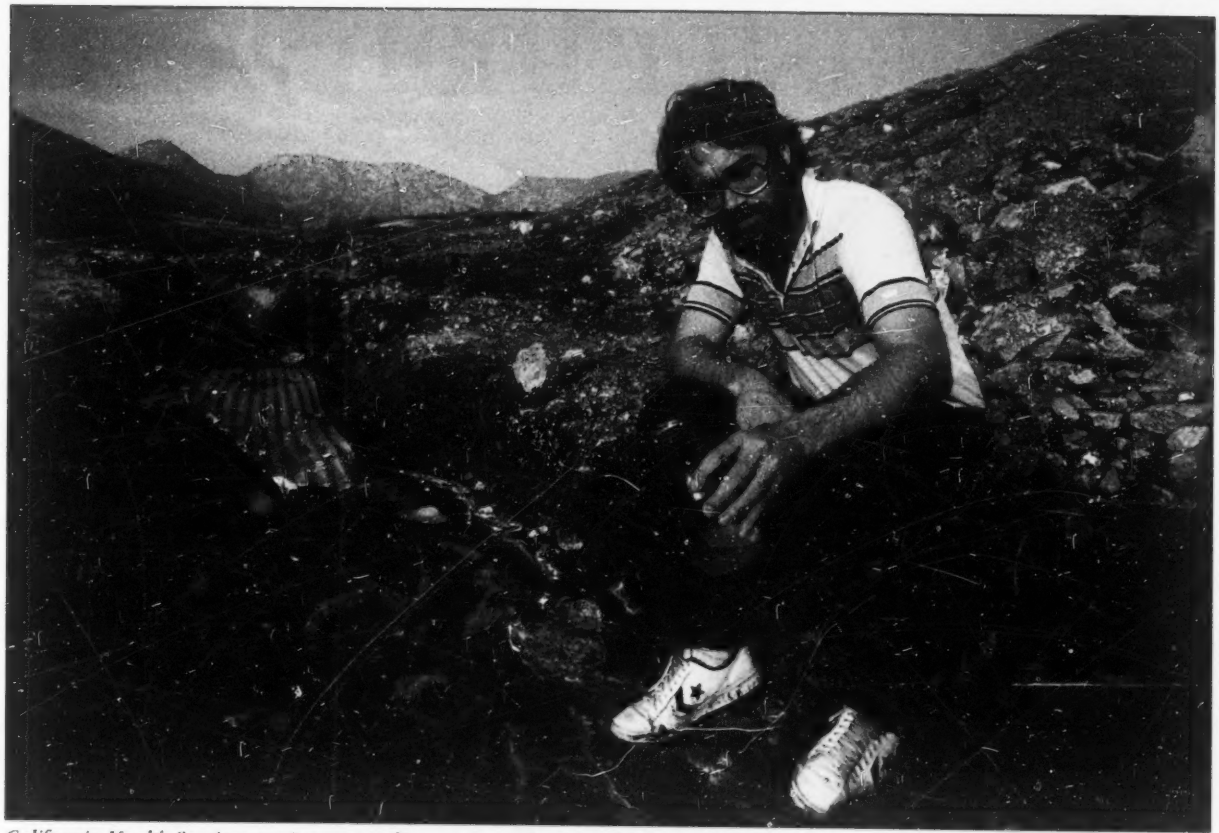
Superfund so far has been more sound than fury, perhaps because EPA officials like former chief Anne Burford deliberately tried to block the program. Only ten sites have been cleaned up so far, but cleanups at hundreds more are currently in process, and the Administration, Senate and House are wrangling now over how big a renewed Superfund should be—$5 billion, $7.5 billion, $10 billion. Even $10 billion is unlikely to be enough. The Department of Defense estimates it will cost between $5 billion and $10 billion to clean up some 473 military sites alone. The General Accounting Office puts the total national cleanup cost at $39 billion. The Office of Technology Assessment thinks it's well over $100 billion.

All too often, as the OTA study points out, Superfund money has been devoted to moving wastes from one problem site to another, from Dartmouth, Mass., say, to landfills in New York and Ohio that were themselves possible problems. Some Love Canal wastes went to BFI's Cecos landfill only 5 miles away. Waste Management was hired to handle the $7.7 million cleanup of the Seymour, Ind. site, which includes some Waste Management waste. And even the sites to which the waste is moved may not be secure. "The requirement that no unit be leaking would probably rule out all the operating landfills in the country," states William Myers, a former EPA scientist.

"Superfund was designed for emergency situations like Love Canal," says Hugh Kaufman of EPA's Hazardous Site Control division, "and the idea was that people who created the environmental and public health emergencies would have to pay ultimately. What Superfund has been turned into by the politicians is a public works program, and they've done this at the urging of companies like Waste Management, which not only create these catastrophes but also clean them up and get paid for it. Of the $1.6 billion committed in the first five years, we have returned only $21 million to the fund."

The dimensions of the problem explode even as the means of solving it dwindle. Last year Congress limited or barred use of land disposal for certain substances and decreed that all forms of land disposal should be barred within 66 months. But good intentions are no substitute for hard thought. As it is, 903 storage and treatment facilities, 42 incineration facilities and 186 land disposal sites have been closed. That leaves, at last count, only 373 commercial treatment facilities, including perhaps 36 commercial incinerators and 58 commercial land disposal sites in all the U.S. Clearly inadequate to the need.

But if not land disposal, what? There are several alternatives. Some hazardous wastes can be recycled, others transformed into chemically stabilized solids, and still others stored in secure, deep wells or landfills. Other wastes can be treated



California Health Services engineer sampling water at the Stringfellow Acid Pits
When the owners go bankrupt, who foots the bill for the cleanup?

Bill Nation/Sygma

chemically, biologically or thermally—that is, burned—and safely disposed of in a nontoxic landfill at $15 to $30 a ton rather than $100 or $200.

For those wastes that will burn, about 25% of the total, incineration offers the most promising solution, though hardly a cheap one. That's why both Waste Management and At-Sea Incineration, an affiliate of bankrupt Tacoma Boatbuilding, are eager to begin burning toxics offshore. Ocean incineration is significantly lower cost, but it has been opposed by both Rollins and Environmental Services, which together operate two of the four land-based, PCB-approved incinerators. The U.S. will need all the incinerators it can get. EPA figures it will need 82 land-based and 33 ocean-going incinerators by 1990.

"The next few years look very bright, but it will be very expensive to get service," Eugene Wingerter, head of the National Solid Wastes Management Association, says cheerfully. "This industry thrives on regulation."

Law enforcement people worry that as more and more landfills close down, toxic wastes like PCBs and dioxins will end up in the high-temperature waste recovery plants that are springing up all over the country, where they may or may not be incinerated properly. Such concerns are by no means academic. Hazardous waste in the garbage stream has already destroyed a waste recovery plant in Akron, Ohio.

Incinerators aside, it has become increasingly difficult to get a hazardous waste project of any kind into operation. Nobody wants a hazardous waste site in his own backyard, and states with disposal facilities are beginning to balk at becoming dumping grounds for states without them. The capital costs of disposal, treatment and storage have gone through the roof, and the regulatory process is so involved it may take five years to get a project operational. Even worse, most companies can no longer buy liability insurance.

"When you have to have something nobody wants, and when it has major financial liabilities, who do you look to to take on those liabilities? The taxpayers of the U.S.," says EPA's Hugh Kaufman. "These guys at the waste management companies really know how to play the system and make sure the liability does not remain on their shoulders."

It's probably better that the taxpayer assume these costs if the alternative is that no one assumes them. Bluntly, and in short, environmental safety may be too vital a matter to leave to the unfettered working of the profit motive. There is a parallel in the nuclear power business for the past 30 years. Government has assured certain risks in the nuclear business, limiting the utility's liability in the event of an accident and agreeing to assume responsibility for future storage of wastes. The hazardous waste industry can make arguments every bit as compelling for such government support.

It's a risky business, all right, extraordinarily risky for everybody involved—generators, disposers and the public alike. But the magnitude of the opportunity is suggested by the fact that the rewards still seem to outweigh the risks. If the new waste is going to be disposed of, if the old waste is going to be cleaned up, it's the commercial companies, the risks notwithstanding, that will do the job. "There is a lot more upside potential than there is downside risk," says Waste Management President Phillip B. Rooney. "That is what we are counting on. We continue to believe the potential is enormous." ■

Investment bankers have been doing a superb job of raising money through new issues. The economy obviously benefits. But how have their customers fared? Not well.

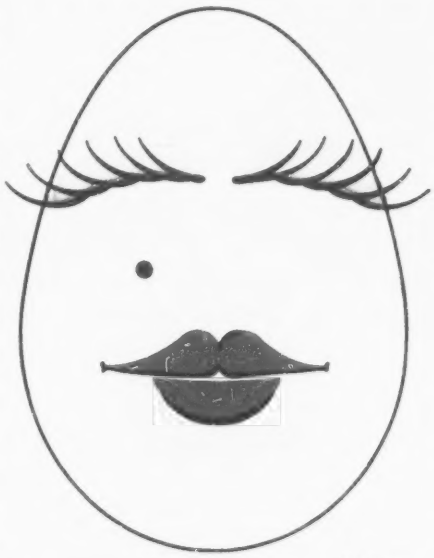
Why new issues are lousy investments

By Richard L. Stern and Paul Bornstein

NEW ISSUES. Entrepreneurial companies. The stuff of legend. The stuff of dreams. From Jan. 1, 1975 through last June 30 more than 2,800 companies went public in the U.S. They raised $27.5 billion by selling common shares to the investing public. That money financed a lot of growth and provided plenty of jobs—and made a lot of founding shareholders very rich. It also helped the brokers cover their overhead and then some: Investment bankers earned perhaps $2 billion in concessions for distributing all that paper.

Great for the brokers. Great for the founding shareholders. Great for American enterprise. But not so good for John Investor.

With a lot of hard work and more than a little help from computers, FORBES has traced 2,800 new issues that went public in the last ten years. After eliminating the perilous penny stocks *(see p. 190)*, we traced 1,922 new offerings that came public at $1 a share or more. Our conclusion: On average, an investor would have fared better, and with far less risk, buying an index fund than in playing new issues. However valuable the new-issues market may be for U.S. industry, it is a deck stacked against investors.



Andy Christie

Our computers tell us that the same stocks sold to the public for $27.5 billion over the decade have an aggregate market value today of $30.8 billion. That's 12%. Since most new issues came out in the last four years, we figure this gives investors an overall return of maybe 3% a year. Less than inflation. Considerably less than the market as a whole returned. Less even than savings accounts returned.

Consider this: Just over four in ten of the new issues showed a profit from offering price to recent market price. This in spite of the fact that these stocks have been public anywhere from ten years to a few months. If the new issues are compared with the stock averages, the results are even more dismal from the investors' perspective.

We figured it this way: To compensate for the risk involved, a new issue should perform better than the averages. A majority did not. From its date of going public to last month, the average new issue was down 22% relative to the broad Standard & Poor's 500 stock index. Of course, not all were losers. Some 600 stocks out of the 1,922 did better than the broad average from the date each was brought public to the present. In short, an investor had less than one chance in three of doing better in new issues than in an index fund. Not very good odds in a market where stocks can and sometimes do go to zero.

If the chances of beating the market in new issues are slim, the chances of getting clobbered are quite high. Even eliminating the highly manipulated $1.1 billion worth of penny stocks, there were plenty of big losers among the more reputable new issues. About 1 in 25 ended in bankruptcy. About 1 in 8 was almost wiped out (down at least 95% versus the averages). A full 850—nearly half—were down at least 50% versus the averages.

Among the top 100 performers, some did very well indeed. A $20,000 investment in Cray Research back in 1976 would make you a millionaire today; ditto investing $25,000 in 1976 in Rolm (acquired by IBM in 1984).

How do we know all this? FORBES developed an elaborate database of all the new issues we could find that went public interstate since 1975. We measured each from its date of issue in terms of absolute price action and relative to the S&P's 500. Given the risks of new issues, we believe an investment in a new public company should outperform the total return of an investment in an established company.

There is also the factor of time. A stock that doubled in two years is a big winner, while a stock that doubled in the last ten years is a mediocre performer. Measuring against the S&P's puts each issue on an equal footing. For uniformity, when a company went public as a unit (two common shares and a warrant, for instance), we calculated the value of one

share of common, assuming that the funds received by a company from exercise of warrants were ultimately reflected in the stock price.

Why does the investing public take it on the chin so often in new issues? Some of the risk is inseparable from the type of offering: No one can predict the future, and many new issues don't even have much in the way of a past to judge by. But more insidious to the workings of most brokerages with investment banking arms is a three-sided conflict of interest. The investment bankers price a new stock issue to get the best price they can for their corporate clients. So the brokerage houses do a good job for U.S. industry. But, as our database shows, they often don't leave much on the table for John Q. Public. Certainly not enough to compensate for the risk.

For the risk is great, even where the most reputable of underwriters are involved. For example, in January 1984 brokers at Dean Witter Reynolds sang the virtues of Columbia Data Products at $11 a share to their customers. Sixteen months later the company filed for bankruptcy protection under Chapter 11. It now sells for 12½ cents a share. Fortune Systems, a $110 million offering brought out at $22 a share by First Boston, Alex. Brown & Sons and Montgomery Securities, proved to be far less than it was touted to be in March 1983. Recently it was selling for $1.50.

The inherent conflicts of interest for the broker are many. When an investment banker has built a big pipeline to pour out new issues, he has to keep it filled to pay for the light bills and Quotron machines. So there's constant temptation to overreach and foist chancy stocks on the public. We're talking about "reputable" investment firms, too, not just out-and-out con men who perpetrate what appears to be a significant amount of suspected stock manipulation in the new-issues market.

The table above shows the ten best and ten worst performances among investment bankers during the last ten years. (For the complete rankings, see p. 155.) It's no surprise that the bottom includes a number of penny stock firms no longer in business. More surprising is that the top five investment bankers are not nationally known names but medium-size regional firms. The leader is William Blair & Co. of Chicago (see box, p. 154), followed by McDonald & Co. of Cleveland, Ohio; Wheat, First Securities, of Richmond, Va.; A.G. Edwards & Sons of St. Louis; and Atlanta's Robinson-Humphrey.

The best and the worst

The lists below rank the ten best and ten worst investment bankers of the past ten years based on the performance of their initial public offerings. We ranked only underwriters with at least ten issues. You will note that there are some ties. For how FORBES ranked the bankers and the complete list, see page 155.

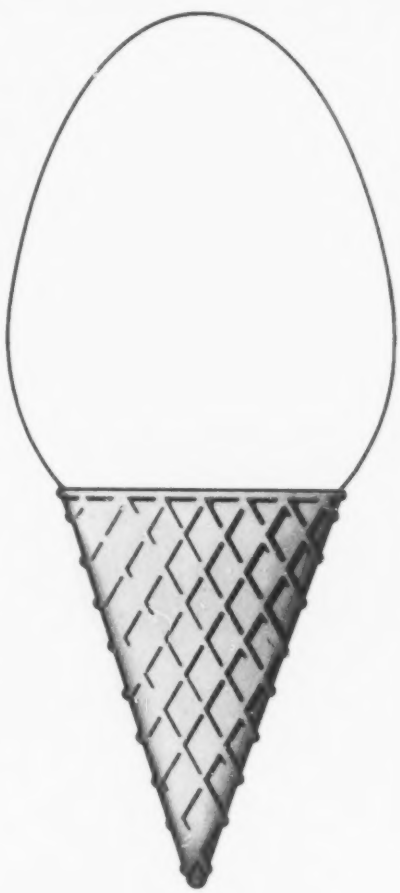
The ten best	The ten worst
1. William Blair & Co	94. SW Devanney & Co
2. McDonald & Co	94. N Donald & Co
3. Wheat First Securities	93. First Financial Sec
4. AG Edwards & Sons	93. Neidiger-Tucker-Bruner
5. Robinson-Humphrey*	92. Centennial State Sec
6. Salomon Brothers	91. Southeast Sec of Florida
7. Drexel Burnham Lambert	90. EJ Pittock & Co
8. Ohio Co	89. American Western Sec
9. EF Hutton	88. Fitzgerald DeArman & Roberts
10. Goldman Sachs & Co	87. OTC Net

* *Division of Shearson/American Express*

What's their edge? About what you should expect it to be. "When the good regional brokerage houses bring companies public, they look for local companies of high quality," says Perrin Long of Lipper Analytical Services, an expert on how brokerages run their businesses. "They want to protect their local community reputations and are not out to bag the public."

William Blair's biggest winner is Safety-Kleen, an Illinois-based commercial cleaning service that would have given investors $965 for every $100 invested at the 1979 offering, a 272% gain over the S&P's.

The biggest winner for McDonald & Co. is Barberton, Ohio-based Novar Electronics, an electric equipment company that has returned $354 for a $100 investment since it went public in 1981, a 94% return over the S&P's. Is there a pattern here and a lesson for investors? In fact, there is. None of the top five churned out a great many issues during the past ten years.



How did the the national powerhouses do? Salomon Brothers and Goldman, Sachs ranked sixth and tenth in producing results for investors, in turning out 26 and 35 issues respectively. E.F. Hutton, the only national retail firm among the top performers, benefited from a heavy representation of new issues that converted mutual savings banks to publicly traded stock companies.

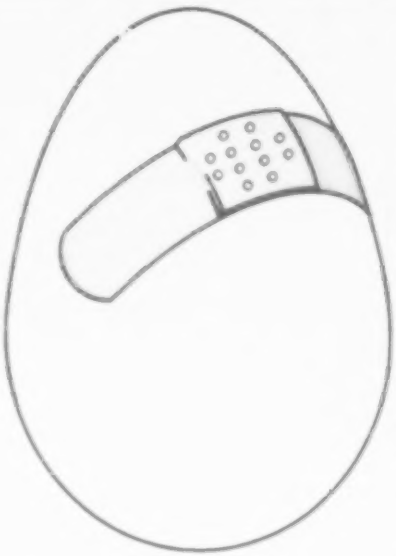
If the big national houses did only modestly well for investors, the houses that specialized in new issues did worse. Four big new-issue houses came to be known as "the four horsemen" during the last major new-issues bull market of 1982-83. These firms filled public investor portfolios with personal computer companies, software companies, disk-drive firms, biotechnology companies and the like.

One of the horsemen, Baltimore-based Alex. Brown & Sons, ranks 28th on our list. Only 26 of its 82 issues did better than the S&P's. Another, Hambrecht & Quist of San Francisco, ranks 44th. Only 25 out of 94 of its issues did better than the S&P's. New York-based L.F. Rothschild, Unterberg, Towbin is 45th. Only 21 out of its 88 companies outdid the S&P's. Finally, San Francisco's Robertson, Colman, Stephens ranks 51st, with

11 of 45 issues ahead of the S&P's.

Technology, the most glamorous field of all, proved to be a trap for investors. A glance at our top 100 performing issues *(p. 164)* shows that they represent a wide variety of industries. They range from Liz Claiborne in apparel to Ryan's Family Steak Houses in restaurants, from Federal Express to Tofu Time. Despite Cray and Rolm, at the top of the list, technology issues make up less than a fifth of the top 100.

Interestingly, Thomas Unterberg and Robert Towbin had a stellar performance from the four new issues they did after 1975. Three out of four were up relative to the S&P's. But that was before Unterberg, Towbin merged into L.F. Rothschild, where they helped develop an army of salesmen to feed new issues on a massive scale to the public.



"But you don't understand," an investment banker for a major brokerage house says defensively. "You've got to buy all our issues to diversify the risk." The fact is, only 14 of the investment bankers we ranked had issues that on average outperformed the S&P's. And only 10 did 10% better. Not a good bet for so risky an investment. Better you should buy a good mutual fund.

But wasn't the game worth playing on the chance that you might end up with one of a handful of big winners? Not necessarily. It is unlikely that the average investor could buy 100 shares on the offering of a so-called hot issue because the allocations usually go to favored customers, which often include hedge funds and other institutional investors. So, even if you bought a big winner, chances are you didn't get much of it. Not enough to compensate for the inevitable losers.

What about the lucky chaps who were on the broker's list to get big chunks of the hot stuff? They, in return for an almost certain gain of a few points, often sell their issues back to the investment banker, who, as a marketmaker, then sells to the eagerly waiting but naive public at well over the offering price. It's all perfectly legal, and profitable to the investment banker-marketmaker, who can often make more from spreads in heavy aftermarket trading than from commissions on the initial public offering.

Take Genentech, which came out at 35 on Oct. 14, 1980 and moved to 71¼ on the first day of trading. What of the investor who bought at 71¼? He would just about break even these days after a 3-for-2 split in March 1983. A good lesson to those who think they can outwit the market buying and selling short term.

This is no level playing field for all investors. An unexpected by-product of our database is the discovery of an enormous amount of manipulation surrounding the new-issues business. Penny stocks remain a hotbed of such activity, but increased public interest in the new-issues lottery over the last ten years appears to have moved the stock manipulators into issues with higher offering prices, particularly in the $1-to-$5 range. A computer ranking of the stocks in that range with the biggest initial gains reveals with discomforting frequency investment bankers whose names raise the eyebrows of enforcement officials *(see p. 176)*. Inevitably, most of their issues eventually collapse. The profits are illusory.

Is there safety in numbers? That is, can an investor do better sticking with big new issues? Not necessarily. The best performers, Rolm and Cray and Liz Claiborne, were not particularly sizable issues when they went public. Not only is a new issue's size no guarantee of success, it could be a negative. Our computers indicate that the investment bankers often have difficulty pushing the biggest issues out the door. Most tended to remain around the issue price during the first two weeks of trading and, over the long term, gravitated downward *(see p. 184)*.

If you want a long-shot chance at getting rich on a small stake, try the lottery. The new-issues market performs extremely useful functions in the U.S. economy. Making investors rich is not, however, one of these functions. ■

Cultivating their own garden

Chicago-based William Blair &Co. is the top underwriter in FORBES' IPO survey. More than half its new issues outperform the S&P's 500. Blair did well concentrating on the Midwest, where it has a regional advantage, and on companies in areas like distribution, specialty retailing and office products, where it now has expertise.

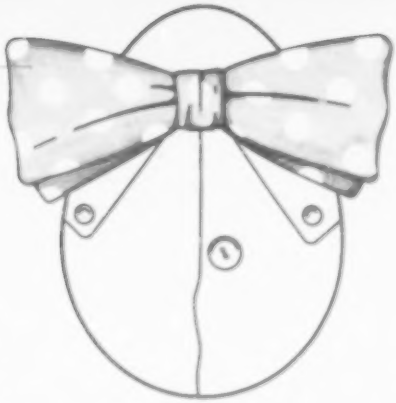
Michael L. Abramson

William Blair's E. David Coolidge III

A regional firm (assets, $183 million) that can't count on a big ad budget to cover mistakes, Blair looks for companies that promise long-term performance. It tries to keep customers coming back. "We don't do the deal and walk away," says E. David Coolidge III, 42, Blair's head of corporate finance. "We take companies to visit investors well after the offering." Successes include Guilford Industries, Inc., a Maine textile manufacturer, and United Stationers, Inc. (comanaged with Salomon Brothers), a Chicago wholesale distributor.

Blair doesn't win them all. It has stumbled in bringing some young companies to market too soon—Renal Systems, Inc., a Minneapolis maker of hemodialysis equipment, for example, and Concord Computing Corp., a Massachusetts maker of credit verification systems. But, thanks to its Chicago base, it largely missed the technology and oil and gas booms—and later busts. Says Coolidge: "If it's a flash in the pan, we're probably unwilling to do the transaction." That may cost Blair some underwriting business. It may also attract grateful repeat customers.—**Ruth Simon**

Rating the investment bankers



Whence come the new issues most likely to succeed in the subsequent marketplace? Look to the heartland. From the packs of hot issue houses and big mass-production national brokers, five regional firms emerge.

Number one on the list of 96 brokerage houses is Chicago-based William Blair & Co., which, since 1975, has offered its customers the best opportunity for making money on initial public offerings. A portfolio of its 20 new issues would have reaped a 132% gain, outperforming the Standard & Poor's 500 by a combined average of 47%. That's $2,320 for a $1,000 investment. Fourteen of William Blair's 20 issues are higher than their offering price, and more than half outperformed the S&P's 500.

How did FORBES pick the winners? We went for consistency, ranking brokers by the percentage of their issues that matched or outperformed the S&P's 500. We broke ties by comparing brokers on the average performance of their issues relative to the S&P's. Each of the 2,800 issues in our database was measured separately against the S&P's from the day it went public.

We assigned issues, where applicable, to the three lead brokers in the underwriting on the grounds that they were primarily responsible for an issue, not merely marketers.

We chose not to rank winning brokers on average overall performance because of the camouflaging effect a few big winners can have on many losers. For consistency, we chose to rank only firms that did ten issues or more.

In most cases where brokerages have merged, we kept separate the firms and the offerings they did before they were acquired, although such firms are listed under their parents. Thus Robinson-Humphrey shares 5th spot, while parent Shearson/American Express has 16th place.

Want a fairly sure way of losing money? Look to penny stocks. The big losers are weighted toward penny houses (some no longer in business, such as Colorado's First Financial Securities Inc. and N. Donald & Co.), and others with a history of securities law problems, such as now-defunct New Jersey-based Southeast Securities of Florida.

Rank	Underwriters	Total number of issues	—Average performance— actual	relative to S&P's 500	—% of issues with gains— actual	relative to S&P's 500
76	Adams James Foor & Co	15	-40%	-62%	13%	13%
11	Advest Inc	22	43	5	50	45
	Burgess & Leith Inc	8	43	-1	50	37
	Putnam FL & Co	1	-98	-99	0	0
30	Allen & Co	12	97	14	58	33
89	Am Western Sec	17	-58	-81	5	5
47	Bateman Eichler	23	-12	-44	34	26
14	Bear Stearns & Co	30	36	-4	53	43
68	J Daniel Bell & Co	20	14	-36	25	15
34	DH Blair & Co	83	40	-3	42	32
	Broadchild Sec	8	23	-31	25	12
1	William Blair & Co	20	132	47	70	60
85	Blinder Robinson	65	-42	-58	16	7
13	Blyth Eastman Paine Webber	30	48	0	56	43
53	Paine Webber Jackson & Curtis	13	30	-2	61	23
	Mitchell Hutchins	1	1,275	871	100	100
59	Rotan Mosie Inc	25	-12	-43	40	20
67	Boettcher & Co	13	-8	-30	46	15
36	JC Bradford & Co	13	37	-1	46	30
60	Brodis Securities	10	-21	-47	30	20
28	Alex Brown & Sons	82	41	-7	45	34

Rating the investment bankers

Rank	Underwriters	Total number of issues	—Average performance— actual	relative to S&P's 500	—% of issues with gains— actual	relative to S&P's 500
23	Butcher & Singer	11	44%	0%	63%	36%
92	Centennial State Sec	10	–71	–79	0	0
33	Chesley & Dunn	12	–6	–30	41	33
39	Citiwide Securities	22	43	17	27	27
29	Craig-Hallum	12	169	22	41	33
48	Dain Bosworth Inc	24	33	–19	38	25
	Bosworth Sullivan	1	–98	–99	0	0
17	Dean Witter Reynolds	61	34	–7	46	38
94	SW Devanney & Co	10	–61	–89	20	0
61	RG Dickinson & Co	10	–38	–53	20	20
94	N Donald & Co	18	–83	–89	0	0
21	Donaldson Lufkin & Jenrette	32	33	–5	53	37
7	Drexel Burnham Lambert	51	29	–3	60	50
25	James J Duane & Co	11	14	–17	36	36
4	AG Edwards & Sons	15	68	3	60	53
86	Engler & Budd	16	–55	–72	12	6
77	Eppler Guerin & Turner	10	–50	–65	10	10
81	Faherty & Faherty Inc	11	–48	–72	27	9
26	First Affiliated Sec	11	–9	–41	36	36
24	First Boston Corp	22	30	–15	72	36
93	First Financial Sec	20	–80	–86	5	0
74	First Jersey Securities	14	–38	–54	14	14
88	Fitzgerald DeArman & Roberts	17	–62	–73	5	5
10	Goldman Sachs & Co	35	68	–1	57	48
44	Hambrecht & Quist	94	41	–23	39	26
71	Hanifen Imhoff Inc	20	–53	–66	15	15
79	AL Havens Securities	11	12	–5	18	9
9	EF Hutton	79	94	21	68	49
27	Janney Montgomery Scott	14	15	–20	50	35
84	Jay W Kaufmann & Co	14	–20	–54	21	7
40	Kidder Peabody & Co	45	54	–6	51	27
75	Kobrin Securities	15	–41	–54	26	13
38	Ladenburg Thalman & Co	21	0	–29	43	29
69	Laidlaw Adams & Peck	20	–41	–49	15	15
80	BJ Leonard & Co	11	–21	–67	9	9
2	McDonald & Co	10	42	0	60	60
19	Merrill Lynch	74	60	9	56	37
	White Weld & Co	3	515	151	66	66
12	Becker Paribas	34	30	–12	59	44
58	MH Meyerson & Co	15	–21	–40	40	20
54	Monarch Funding	30	869	62	37	20
57	Montgomery Sec	30	–3	–37	30	20
31	Morgan Stanley & Co	24	16	–12	41	33
32	Moseley Hallgarten Estabrook	18	2	–19	50	33

Rating the investment bankers

Rank	Underwriters	Total number of issues	—Average performance— actual	relative to S&P's 500	—% of issues with gains— actual	relative to S&P's 500
62	Mountain-Pacif Inv	10	-27%	-68%	30%	20%
64	John Muir & Co	37	-27	-59	27	19
66	Muller & Co	35	-31	-51	25	17
93	Neidiger-Tucker-Bruner	11	-73	-86	9	0
72	Norbay Securities	22	-17	-46	18	14
8	Ohio Co	12	55	-16	58	50
87	OTC Net	18	-63	-79	11	6
63	Paulson Investment	31	-24	-51	22	19
35	Piper Jaffray Hopwood	16	322	83	56	31
90	EJ Pittock & Co	26	-60	-79	4	4
20	Prescott Ball & Turben	16	44	-2	37	37
37	Prudential-Bache	58	12	-19	36	29
46	Rauscher Pierce Refsnes	15	-16	-40	53	26
51	Robertson Colman Stephens	45	103	5	46	24
55	Rooney Pace Inc	46	10	-22	35	20
45	LF Rothschild	88	14	-29	42	26
	Unterberg Towbin	4	1,525	532	100	75
6	Salomon Brothers	26	60	19	77	50
50	Sec Clearing of Colorado	16	-21	-56	25	25
52	Self	99	64	12	37	23
16	Shearson/Am Express	62	31	-13	53	40
	Foster Marshall-Am Ex	4	6	-37	50	0
	Loeb Rhoades Hornblower	2	493	192	100	100
	Hornblower & Weeks	1	299	131	100	100
15	Lehman Brothers Kuhn Loeb	42	26	-10	57	40
5	Robinson-Humphrey	28	83	25	61	50
49	Sherwood Security	12	-10	-40	41	25
22	Smith Barney Harris Upham	27	13	-31	44	37
91	Southeast Sec of Fla	17	-64	-75	12	0
65	Stifel Nicholas & Co	11	6	-41	36	18
	Bacon Stifel & Nicholas	1	103	61	100	100
	Bacon Whipple	1	-97	-98	0	0
43	Sutro & Co	11	-4	-23	36	27
41	Swartwood Hesse & Levine	11	44	-8	45	27
18	Thomson McKinnon Sec	13	46	-12	69	38
70	Schneider Bernet Hickman	23	-41	-56	30	15
83	Vantage Sec of Colo	12	-55	-67	16	8
82	Wall St West	23	-28	-55	21	8
73	Weber Hall Sale	14	-23	-47	28	14
42	Wedbush Noble Cooke	11	51	-15	36	27
56	Werbel-Roth Securities	10	4	-24	30	20
3	Wheat First Securities	11	56	18	72	54
78	MS Wien & Co	10	-54	-76	20	10

The top 100 new issues

What was the best-performing new issue of the last ten years? In absolute terms, Cray Research. It would have returned $5,080 on stock performance for a $100 investment at its offering price in March 1976. A $20,000 investment in Cray would now be worth more than $1 million. Relative to the S&P's 500, Rolm Inc. did even better, though not as well in absolute dollar terms. Of the 1,920 companies brought public at more than $1 a share in the past ten years, Rolm produced the biggest long-term relative gain over its offering price. [Relative, that is, to the S&P's 500.] It came public at $14 a share in September 1976—$1.75 a share adjusted for subsequent splits—and was acquired by IBM in 1984 for about $70 a share. Patient investors who bought at the offering price and held on until the takeover reaped a 3,900% profit on pure stock price performance. So a $100 investment in Rolm grew to $4,000.

Such are the numbers that keep investors coming to the new issue market despite the fact that the new issues disappoint more often than they fulfill. But the fulfillment isn't just in high technology. Although numbers one and two of the top five performers on our list are computer companies, the others represent a variety of industries. TCBY Enterprises changed its name from This Can't Be Yogurt, and Liz Claiborne, number four, is in apparel.

We ranked each of the top 100 companies—and all of the 2,800 companies in our database—relative to the S&P's 500 from date of issue. So Rolm outdid the S&P's by 1,581%. Why rank on the S&P's 500? Overall, given the obvious risks of investing in initial public offerings, we felt an IPO should outperform the total return on an investment in the safer, established companies of the S&P's 500. There's also the fact of performance over time. A stock that has doubled in the past two years obviously has outperformed a stock that doubled in ten years. But by measuring against the S&P's from date of issue, each stock is compared on an equal basis.

Be careful, though, with the more recent issues. They have not yet met the test of time, and the gains may prove illusory, based on hot new issue frenzy and possible manipulation by underwriters. At least one of the underwriters in the table reportedly keeps prices high on its recent offerings by pressuring customers not to sell the issues. Another has been charged by the Securities & Exchange Commission with fraud in an underwriting. Not all that glitters, even here, is truly gold.

Current company name/Acquirer	Date of offering	—% performance— relative to S&P's 500	actual	Offer price	Current value of $100 invested	Underwriters
Rolm/IBM	9/15/76	1,581%	3,900%	$14.00	$4,000	EF Hutton Montgomery Sec
Cray Research Inc	3/17/76	1,572	4,980	16.50	5,080	Unterberg Towbin Piper Jaffray Hopwood New Court Sec
TCBY Enterprises Inc	5/10/84	649	858	7.75	958	Chicago Corp
Liz Claiborne Inc	6/ 9/81	646	1,242	19.00	1,342	Merrill Lynch
US Health Care Sys	2/ 9/83	619	973	20.00	1,073	Merrill Lynch Alex Brown & Sons

The top 100 new issues

Current company name/Acquirer	Date of offering	—% performance— relative to S&P's 500	actual	Offer price	Current value of $100 invested	Underwriters
St Jude Med Inc	2/ 9/77	596%	1,943%	$3.50	$2,043	Craig-Hallum
Tofu Time Inc	12/ 9/83	517	680	5.00	780	Starr Securities
Manufacturing Data Sys/Schlumberger	2/11/76	487	860	7.00	960	Unterberg Towbin Hambrecht & Quist Prescott Ball & Turben
Enzo Biochem Inc	6/12/80	434	1,053	6.25	1,153	DH Blair & Co
Ryans Steak House Inc	7/13/82	424	971	9.25	1,071	Johnson Lane Space
Data Resources Inc/McGraw-Hill	11/ 9/76	414	552	11.50	652	William Blair & Co
Federal Express Corp	4/12/78	400	1,450	24.00	1,550	White Weld & Co New Court Sec
Shared Med Sys Corp	6/29/76	371	1,275	20.00	1,375	Mitchell Hutchins Alex Brown & Sons
Hammer Computer Sys Inc	4/26/85	363	400	3.00	500	Tidd Lackey & Co
Continuous Curve Contact Lenses/Revlon	2/ 1/77	358	561	10.00	661	Oppenheimer & Co
Cullinane Corp	8/ 2/78	349	1,100	20.00	1,200	Hambrecht & Quist
Nestor Inc	12/22/83	336	456	4.00	556	Rooney Pace Inc
Brooks Fashion Stores/BR Investors	9/10/75	322	1,209	11.00	1,309	Goldman Sachs & Co
Avantek Inc	11/16/78	315	1,100	14.00	1,200	Kidder Peabody & Co Hambrecht & Quist
Preferred Health Care Group	9/14/83	292	400	5.00	500	DH Blair & Co
Staar Surgical Co	7/ 7/83	291	396	6.25	496	DH Blair & Co
Filmtec Corp/Dow Chemical	3/26/79	290	904	3.25	1,004	Pagel Inc
AL Williams Corp	7/ 7/82	289	713	5.00	813	Self
Healthcare Svcs Grp Inc	11/23/83	281	377	6.25	477	DH Blair & Co
Ribi Immunochem Research Inc	5/27/81	279	575	6.00	675	Swartwood Hesse & Levine
Safety Kleen Corp	4/ 3/79	272	865	16.50	965	Loeb Rhoades Hornblower William Blair & Co
Atlantic Southeast Airls Inc	7/21/82	269	638	6.50	738	Robinson-Humphrey
Lo-Jack Corp	3/14/83	267	425	2.00	525	Jay W Kaufmann & Co
Biomedical Reference Labs/ Hoffmann LaRoche	5/ 4/79	264	367	13.50	467	EF Hutton Wheat First Securities
King World Productions Inc	12/ 5/84	262	345	10.00	445	Paine Webber Jackson & Curtis
Washington Fed S&L Assn	11/ 9/82	257	448	11.75	548	Merrill Lynch EF Hutton
Environmental Testing & Certif	8/11/82	246	650	5.00	750	Allen & Co
KLA Instrs Corp	10/ 8/80	245	542	18.00	642	Kidder Peabody & Co
Endo Lase Inc	1/17/84	243	325	2.00	425	DH Blair & Co
Lyphomed Inc	5/13/83	239	341	12.00	441	Montgomery Sec Alex Brown & Sons
Home Depot Inc	9/22/81	235	572	12.00	672	Bear Stearns & Co
Amer Integrity Corp	1/12/84	233	313	8.00	413	Advest Inc
Intergraph Corp	4/ 7/81	232	494	18.00	594	Dean Witter Reynolds Robinson-Humphrey
Home Centers of America/K mart	5/13/83	225	251	3.13	701	DH Blair & Co
Endotronics Inc	7/21/83	224	307	7.00	407	Summit Investment

The top 100 new issues

Current company name/Acquirer	Date of offering	—% performance— relative to S&P's 500	actual	Offer price	Current value of $100 invested	Underwriters
Applicon Inc/Schlumberger	7/22/80	224%	232%	$22.00	$332	Blyth Eastman Paine Webber Alex Brown & Sons
Morris County Svgs Bk NJ	12/20/83	218	309	10.75	409	EF Hutton
Biomet Inc	10/ 1/82	215	469	13.00	569	Raffensperger Hughes & Co
Total Sys Svcs Inc	8/10/83	209	305	15.00	405	JC Bradford & Co
BDM Intl Inc	10/ 3/80	208	484	15.50	584	Blyth Eastman Paine Webber
Manufactured Homes Inc	8/ 9/83	207	306	8.00	406	James J Duane & Co
Network Sys Corp	11/ 3/80	206	480	18.00	580	Shearson/Am Express Montgomery Sec Dain Bosworth Inc
Copytele Inc	10/ 6/83	203	275	10.00	375	Gilford Securities
Animed Inc	3/14/84	203	195	5.00	375	Starr Securities
Comair Corp	7/16/81	191	427	5.00	528	Broadchild Securities
Tandem Computers Inc	12/14/77	188	772	11.50	872	LF Rothschild Robertson Colman Stephens
Athens Fed Svgs Bk Georgia	1/12/84	186	255	8.25	355	Robinson-Humphrey Johnson Lane Space James Raymond & Assoc
Children's Place/Federated Dept Stores	4/29/81	185	144	12.50	244	Donaldson Lufkin & Jenrette
United Stationers Inc	11/24/81	182	429	16.25	529	Salomon Brothers
Atlantic Research Corp	6/ 6/79	181	631	10.00	731	LF Rothschild
Pizza Ventures/Godfather's Pizza	10/15/81	179	325	6.00	425	Allen & Co
Crazy Eddie Inc	9/13/84	179	234	8.00	335	Oppenheimer & Co
Coast Svgs Bank Portland Me	7/ 3/84	177	266	7.38	366	Prudential-Bache Burgess & Leith Inc
Geosource/Aetna Life & Cas	6/21/77	175	286	22.50	386	Kidder Peabody & Co - Merrill Lynch
Insituform Group Ltd	4/16/85	175	198	4.20	298	Rooney Pace Inc
Dairy Mart Convenience Stores	7/22/83	174	245	8.25	345	Advest Inc
PAR Pharmaceutical Inc	12/ 2/83	173	245	7.50	345	Ladenburg Thalman & Co
Liberty Fed S&L Assn Pa	12/ 6/83	169	240	10.00	340	Robinson-Humphrey
Genetic Sys Corp	6/ 4/81	169	388	2.00	488	DH Blair & Co
Brookwood Health Svcs/American Med	3/ 6/79	167	303	12.25	403	JC Bradford & Co
Exovir Inc	9/29/83	165	234	4.00	335	Paulson Investment
Area Comm/Continental Cablevision	11/29/82	164	176	8.50	276	Blackstock & Co
Mediplex Group Inc	10/27/83	162	234	15.00	334	Prudential-Bache Donaldson Lufkin & Jenrette
Med-Chem Prods Inc	1/11/83	160	288	8.00	388	James J Duane & Co
Clothestime Inc	12/ 8/83	159	227	11.00	327	Prudential-Bache

The top 100 new issues

Current company name/Acquirer	Date of offering	—% performance— relative to S&P's 500	actual	Offer price	Current value of $100 invested	Underwriters
Cadec Sys Inc	11/10/83	159%	230%	$5.00	$330	DH Blair & Co
Rehab Hospital Svcs Corp/ National Medical Enterprises	2/10/83	155	239	8.25	339	Butcher & Singer Gintel & Co
Pioneer Fed S&L Assn Hopewell Va	7/19/84	155	244	6.00	344	Scott & Stringfellow
Alfacell Corp	1/18/83	153	275	2.50	375	AT Brod & Co
Vapor Corp/Brunswick	7/22/76	148	175	15.00	275	White Weld & Co Kidder Peabody & Co
Comfed Svgs Bk Lowell Mass	4/ 7/83	148	249	13.75	349	EF Hutton
American Med Prods Corp/Delmed	10/ 7/80	147	127	5.00	227	DH Blair & Co
Dyco Petroleum Corp	8/10/76	147	595	9.38	695	Dain Bosworth Inc
Freedom Fed Svgs Bk Oak Brook Ill	12/11/84	143	55	7.25	134	Chicago Corp Blunt Ellis & Loewi
So Boston Svgs Bank/Boston Bancorp	11/ 9/83	141	208	12.00	308	Dean Witter Reynolds
V Band Sys Inc	1/25/84	140	203	5.00	303	Laidlaw Adams & Peck
Spectran Corp	6/ 3/83	139	211	7.00	311	Advest Inc
Perpetual Amer Bk Alexandria Va	8/17/84	139	193	7.50	293	Merrill Lynch Alex Brown & Sons EF Hutton
National Amer Bancorp	2/ 6/84	138	200	10.00	300	Self
Insituform of North America	8/27/81	137	350	2.50	450	Rooney Pace Inc
Entenmann's/Warner Lambert	5/12/76	136	143	18.50	243	Blyth Eastman Paine Webber Dean Witter Reynolds
Arthur J Gallagher & Co	6/20/84	132	205	13.75	305	Morgan Stanley & Co
Juno Lighting Inc	9/ 1/83	132	198	12.75	298	William Blair & Co
Keystone Foods Corp	7/15/75	131	299	11.00	399	Hornblower & Weeks
Georgia Fed Bk Atlanta	1/25/84	130	190	8.50	290	Shearson/Am Express Merrill Lynch Dean Witter Reynolds
Fremont General Corp	1/18/77	130	559	14.50	659	Wedbush Noble Cooke
Home Owners Fed S&L Assn	5/25/84	128	208	10.00	308	Bear Stearns & Co
TIE/Communications Inc	12/ 6/79	128	441	6.25	541	DH Blair & Co
New England Business Svcs Inc	10/ 5/77	127	582	11.00	682	Anthony Tucker & RL Day
Applied Biosystems Inc	6/29/83	127	190	17.00	290	Lehman Brothers Kuhn Loeb Rothschild Inc
Century 21 Real Estate/Trans World Corp	10/11/77	126	174	13.00	274	Wedbush Noble Cooke Bateman Eichler
Jenn-air Corp/Carrier Corp	4/14/77	123	140	14.25	240	Merrill Lynch
Fibronics Intl Inc	10/11/83	123	175	9.00	275	Bear Stearns & Co
Collective Fed S&L Assn	2/ 7/84	123	190	10.50	290	Becker Paribas
Evans & Sutherland Computer CP	9/ 7/78	122	478	20.00	578	Hambrecht & Quist

How the hottest issues fared

Say "new issues" and most people hear "hot issues," the low-priced stocks that make you rich overnight. It does happen, but it's rare. In the real world, losers outnumber gainers. Fully 81 of the 120 hot stocks on the table below turned into long-term losers after the initial runup. We defined hot stocks as those with the biggest gains in the second week after the public offering. (When our computer could pick up trading for a representative list.) We've listed: the 20 hottest stocks that went public at $1 or less; the 40 hottest at more than $1 to $5; and the 60 hottest above $5.

If you want to play with hot stocks, do so only if you can get the original offering price. The aftermarket is a dangerous place. Consider Hirsch Chemie, brought out in June 1983 at 50 cents by Southeast Securities of Florida. By the second week it was up to $2 a share. Investors had high hopes for its planned cancer treatment products. Where is Hirsch Chemie today? At 6 cents a share.

What keeps investors coming? The occasional winner. Home Centers of America came out at $3.13 a share, doubled in price by its second week and was bought out at $11 by K mart.

Current company name	Date of offering	Offering price*	Initial % gain	Adjusted offering price*	Current price	% gain relative to S&P's 500	Underwriters
$1 or less							
Dallas Oil & Minerals Inc	2/ 9/81	$0.10	4,899%	$1.00	$0.19	–90%	Fitzgerald DeArman & Roberts
Ross Exploration Inc	5/ 4/83	0.10	2,150	0.50	0.15	–76	Kobrin Securities
Surgery Centers	6/ 6/83	0.50	375	0.50	0.19	–71	RF Lafferty
Intl Remote Imaging	12/ 5/80	1.00	363	1.00	2.00	10	OTC Net
Softguard Systems	1/16/84	0.20	338	0.20	0.09	–64	RB Marich
American Network	9/ 1/83	1.00	300	1.00	3.25	153	Muller & Co
Hirsch Chemie	6/20/83	0.50	300	0.50	0.06	–90	Southeast Securities
US Minerals Exploration	7/10/80	0.10	275	0.10	0.66	211	J Daniel Bell & Co
Parallel Petroleum	10/ 1/80	0.20	275	2.00	0.38	–90	First Financial Sec
Nova Petroleum	12/ 4/79	0.25	250	0.25	0.06	–90	BJ Leonard & Co
Cheyenne Resources	2/ 8/80	0.25	250	0.25	0.03	–94	MH Meyerson & Co
Bogert Oil	10/31/80	1.00	250	1.00	0.72	–62	Fitzgerald DeArman Roberts
Crab House[1]	3/23/79	0.15	233	0.15	0.97†	224	Norbay Securities
Denelcor	8/28/78	1.00	225	1.00	0.19	–93	EJ Pittock
Impact Energy	2/ 3/81	0.20	213	0.20	0.03	–92	Wall St West
Hal Rad Communications	5/31/85	0.50	206	0.50	1.31	155	RB Marich
JM Resources	3/ 6/81	0.25	200	2.50	0.03	–99	N Donald & Co
Prima Energy	9/15/80	0.30	192	0.30	0.19	–67	Engler & Budd
Enterprise Oil & Gas	5/15/81	0.13	188	0.13	0.03	–86	MH Meyerson
Woodbine Petroleum	12/ 3/80	1.00	188	1.00	0.03	–98	EJ Pittock
Greater than $1 and up to $5							
Keystone Med Corp	12/22/83	3.00	1,229	3.00	5.25	37	AT Brod & Co
AL Williams Corp	7/ 7/82	5.00	440	1.60	13.00	289	Self
Hemotec Inc	3/28/75	1.25	290	0.83	4.00	26	Douglas Stanat & Co
NU Med Inc	3/17/80	4.00	194	3.20	6.75	–15	Herbert Young Securities
Healthmate Inc	3/13/85	1.75	150	1.75	1.81	6	Creative Securities
NU Horizons Electrs Corp	5/24/83	1.50	150	1.50	3.38	74	GK Scott & Co
Whitman Med Corp	6/17/81	3.00	125	3.00	1.75	–67	Broadchild Securities
Mobot Corp	10/21/80	2.00	125	2.00	1.13	–70	Paulson Investment
Neomed Inc[2]	10/16/78	2.75	123	2.75	8.82†	117	Craig-Hallum Inc
Syncor Intl[3]	9/16/80	3.60	101	2.40	4.25†	–7	Muller & Co

[1]Acquired by Capt Crab's Takeaway. [2]Acquired by Roter Group. [3]Acquired by Nuclear Pharmacy. *Per common share. †Takeover price.

How the hottest issues fared

Current company name	Date of offering	Offering price*	Initial % gain	Adjusted offering price*	Current price	% gain relative to S&P's 500	Underwriters
Mitral Medical Intl	5/30/80	$3.00	100%	$2.00	$1.94	–57%	Engler & Budd
Cytox Corp	12/19/80	2.00	100	2.00	0.53	–85	Rooney Pace Inc
Tenderfoot Intl Inc	5/ 3/78	1.25	100	1.25	0.13	–93	Columbine Sec
St Jude Medical	2/ 9/77	3.50	100	0.88	17.75	591	Craig-Hallum
Caesars NJ Inc	10/18/78	5.00	100	5.00	10.13	–25	Janney Montgomery Scott
Home Centers of America[1]	5/13/83	3.13	100	1.57	11.00†	225	DH Blair & Co
Life Care Communities Corp	4/ 5/83	3.00	92	3.00	2.88	–32	MH Meyerson & Co
Widcom Inc	8/ 4/83	2.00	88	2.00	4.63	76	Citiwide Securities
Jones Hosplex Sys Inc	5/ 9/83	3.00	83	3.00	0.16	–96	Bond Richman & Co
Miller Technology & Comm	4/13/79	2.50	80	2.38	0.19	–97	Continental Am Sec
Hospital Staffing Svcs Inc	12/ 6/83	3.00	79	3.00	2.38	–37	Werbel-Roth Sec
Polymeric Res Corp	1/27/83	4.00	75	4.00	2.88	–52	Broadchild Securities
Animed	3/14/84	5.00	75	2.50	9.38	203	Starr Sec
Cryodynamics Inc	4/26/84	1.25	70	1.25	0.69	–57	Creative Securities
Info Designs Inc	5/12/83	5.00	70	5.00	0.50	–92	First Heritage
Telephone Specialists Inc	3/26/83	2.00	69	2.00	1.50	–47	Robert Peterson SC
Pico Prods Inc	7/16/81	3.00	67	3.00	2.25	–59	Rooney Pace Inc
Suntec Sys Inc	4/11/78	1.50	67	1.50	0.01	–100	Engler & Budd
QMAX Technology	11/ 8/84	5.00	65	2.50	5.50	86	Starr Sec
Detroit Tex Gas Gathering Co	11/10/80	2.00	63	2.00	0.69	–82	Jay W Kaufman
Howtek Inc	12/13/84	5.00	60	5.00	10.00	63	Whale Securities
Pharmatec Inc	8/ 5/83	5.00	60	5.00	2.63	–60	MH Meyerson & Co
North American Holdings	3/21/84	3.00	58	3.00	5.63	45	North American Investment
Laser Photonics Inc	1/ 5/83	5.00	55	5.00	4.13	–46	DH Blair & Co
Fonar	10/23/81	5.00	55	5.00	4.13	–58	OTC Net
Benafuels	5/13/83	2.00	50	2.00	0.25	–90	N Donald & Co
Tago	6/ 8/83	2.50	50	2.50	0.19	–94	Muller & Co
Technology 80	5/14/85	3.50	50	3.50	3.63	–2	Pagell Inc
C Pac	3/31/81	4.50	50	4.50	0.69	–91	JE Sheehan & Co
National Royalty	3/30/81	2.00	44	2.00	2.25	–37	Houchin Adams & Co
Greater than $5							
Ribi Immunochem	5/27/81	6.00	154	1.00	56.50	265	Swartwood Hesse & Levine
Artel Communication Corp	6/ 2/83	6.00	117	6.00	7.50	–4	Rooney Pace Inc
Fuddruckers Inc	11/ 3/83	7.00	107	7.00	5.00	–44	John G Kinnard & Co
Genentech Inc	10/14/80	35.00	104	23.33	48.63	12	Blyth Eastman Paine Webber
Primages Inc	5/12/83	7.00	104	7.00	2.88	–68	Rooney Pace Inc
Universal Health Services	7/ 9/81	20.00	103	10.00	12.38	–32	Merrill Lynch
Odetics Inc	7/14/81	18.00	94	18.00	4.63	–70	Blyth Eastman Paine Webber
Sterling Software Inc	5/ 4/83	9.00	93	9.00	9.88	–16	Rotan Mosle Inc
Interand Corp	6/ 2/83	10.00	90	10.00	12.25	–6	Ladenburg Thalman & Co
Information Resources	3/ 4/83	23.00	89	11.50	25.75	59	Hambrecht & Quist
Electro-Biology	2/18/81	10.00	85	6.68	10.25	–18	Robertson Colman Stephens
KLA Instruments	10/ 8/80	18.00	82	3.00	19.00	240	Kidder Peabody
Triangle Microwave	11/26/82	6.25	80	3.13	5.38	6	Muller & Co
Team Inc	10/ 7/80	15.00	80	15.00	3.38	–88	Rotan Mosle Inc
Rax Restaurants Inc	7/14/83	13.00	79	13.00	5.88	–65	Ohio Co

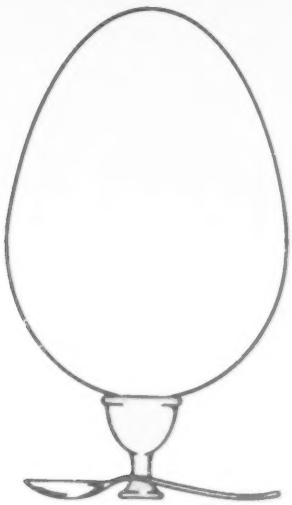
[1]Acquired by K mart. *Per common share. †Takeover price.

How the hottest issues fared

Current company name	Date of offering	Offering price*	Initial % gain	Adjusted offering price*	Current price	% gain relative to S&P's 500s	Underwriters
CFS Finl Corp	5/15/85	$9.00	79%	$9.00	$14.00	38%	EF Hutton
Hytek Microsystems Inc	4/13/83	7.00	79	7.00	7.25	–24	Allen & Co
Intergraph	4/ 7/81	18.00	71	4.50	26.63	231	Dean Witter Reynolds
Xicor Inc	10/28/80	6.50	69	6.50	6.75	–46	DH Blair & Co
Biotech Research Labs	3/19/81	6.25	68	3.13	8.25	47	Shoenberg Hieber Inc
Clubmart of Amer Inc	5/18/83	5.25	67	5.25	0.50	–93	Rooney Pace Inc
US Health Care Systems	2/ 9/83	20.00	66	2.63	28.25	619	Merrill Lynch
Avant-Garde Computing Inc	6/30/83	16.00	66	16.00	5.63	–72	Kidder Peabody & Co
Telesphere Intl	4/23/81	10.00	65	2.96	3.75	–29	DH Blair & Co
21st Century Envelope	12/15/82	7.00	64	7.00	1.38	–88	Invemed Associates
British Telecomm Plc	12/ 3/84	15.49	62	15.50	27.13	42	Morgan Stanley & Co
Washington Fed S&L Seattle	11/ 9/82	11.75	62	4.75	26.25	261	Merrill Lynch
Tacoma Boatbuilding	9/30/80	18.00	61	8.00	1.25	–92	Bear Stearns & Co
Applicon Inc[1]	7/22/80	22.00	60	22.00	73.08†	224	Blyth Eastman Paine Webber
Triad Sys Corp	12/18/79	15.00	60	15.00	8.75	–75	LF Rothschild
Elan Pharmaceutical Labs[2]	1/19/82	6.25	60	4.17	11.50†	77	DH Blair & Co
Dickey-John	1/15/76	15.00	60	10.00	13.50	–58	William Blair & Co
GD Ritzy's	12/13/82	10.00	58	6.67	1.63	–84	Ohio Co
Viratek Inc	5/ 7/81	7.00	57	7.00	20.38	61	DH Blair & Co
Deca Energy Corp	12/17/80	7.00	57	7.00	0.56	–96	Boettcher & Co
United Educat & Software	12/ 7/82	7.00	57	7.00	2.75	–74	Laidlaw Adams & Peck
ISC Systems	9/16/80	19.50	56	4.88	13.13	39	Blyth Eastman Paine Webber
SIS Corp	5/26/83	8.00	56	8.00	5.25	–49	McDonald & Co
SAL Communications Inc	6/12/81	10.00	55	10.00	0.25	–99	James J Duane & Co
Argo Systems	12/ 2/82	21.50	55	10.75	19.50	15	Hambrecht & Quist
Lyphomed	5/13/83	12.00	54	5.33	16.50	138	Montgomery Sec
Inter-Tel	2/ 5/81	12.50	54	6.25	2.50	–60	Prudential-Bache
Endotronics	7/21/83	7.00	54	4.67	18.50	216	Summit Investment
Laser Inds Ltd	2/26/81	7.50	53	7.50	9.38	–32	Rooney Pace Inc
Cable TV Inds	5/13/81	10.00	53	10.00	2.63	–86	Bateman Eichler
Evans & Sutherland	9/17/78	20.00	53	3.33	19.00	120	Hambrecht & Quist
Distributed Logic Corp	6/ 2/83	7.00	50	7.00	5.13	–44	Laidlaw Adams & Peck
Lee Data Corp	11/19/82	19.00	49	19.00	5.38	–82	Shearson/Am Express
Dreco Energy Svcs Ltd	12/ 3/80	17.50	49	17.50	0.30	–99	Rotan Mosle Inc
Interpharm Labs Ltd	5/12/81	6.25	48	6.25	3.50	–68	Rooney Pace Inc
NBI	12/12/79	20.00	48	6.67	11.13	–30	Paine Webber Jackson Curtis
Detector Electrs Corp	6/ 2/81	16.00	47	16.00	5.25	–82	Piper Jaffray Hopwood
Aitos Computer Systems	11/ 4/82	21.00	46	21.00	11.00	–66	LF Rothschild
Floating Point Systems	9/28/78	18.00	46	9.00	32.00	33	Goldman Sachs
International Pwr Machs Inc	9/25/80	9.50	45	9.50	4.88	–73	Rotan Mosle Inc
Home Fed Savings Rock	5/10/83	9.20	44	8.76	14.25	26	Boettcher & Co
Vortec Corp	2/ 4/82	7.00	44	6.29	8.13	–34	DH Blair & Co
Med-Chem Products	1/11/83	8.00	44	4.00	15.50	160	James Duane & Co
Kentron International[3]	6/22/83	12.00	44	12.00	4.25†	–69	Rotan Mosle Inc
Key Image Sys Inc	8/ 3/83	6.50	42	6.50	0.38	–96	DH Blair & Co

[1]Acquired by Schlumberger. [2]Acquired by Elan Corp. [3]Acquired by Planning Research. *Per common share. †Takeover price.

The 30 largest initial offerings



In buying new issues, is it safer to stick with the big ones? Does the size of a new issue make for better long-term performance? Most of the time, no. The table below shows the performance of the 30 largest initial public offerings of common stock from the start of 1975 through June 30, 1985. Each raised at least $100 million from the public. We measured percentage gain or loss to the present, compared with the initial stock price and with the Standard & Poor's 500. There were plenty of losers among the big ones. For example, every $100 invested in the conversion from mutual association to stock company of Home Federal Savings Association of San Diego, which has declined 73% since its offering in March 1983, is worth only $27 today. An investment in Mack Trucks, spun off from Signal Cos. and brought public, recently was down 40% from its initial offer price. There are some winners among the big ones. Pearle Health Services, offered two years ago at $17, was recently acquired by GrandMet USA at $33 a share. Shares in British Telecommunications, which came public last year at $15.50, are up 66%. A major reason: A check of our database in the weeks following the offering appears to indicate it was fairly well priced. Meaning: The investment bankers didn't squeeze the last dollar out of the offering; as the saying goes, they "left something on the table." The biggest loser on the list is Fortune Systems, a horrendously overpriced issue on offering that today is worth $8 for a $100 investment. Overall, out of a universe of 30 new issues of $100 million or more, 19 were lower than their offering prices, and 24 were down more than the S&P's. Big isn't best.

Current company name	Date of offering	Offer value (000)	—% performance— relative to S&P's 500	actual	Underwriters
Philadelphia Svgs Fund Society	9/14/83	$340,336	–31%	–12%	Salomon Brothers Drexel Burnham Lambert Goldman Sachs & Co
Calfed Inc	3/29/83	292,923	–16	19	EF Hutton Merrill Lynch Warburg Paribas Becker
British Telecommunications Plc	12/ 3/84	278,819	42	66	Morgan Stanley & Co First Boston Goldman Sachs & Co
Glendale Fed S&L Assn Cal	10/ 5/83	243,598	–27	–8	Dean Witter Reynolds Shearson/Am Express Salomon Brothers
Mack Trucks Inc	8/ 1/83	205,500	–52	–40	Lazard Frères Merrill Lynch Shearson/Am Express

The 30 largest initial offerings

Current company name	Date of offering	Offer value (000)	—% performance— relative to S&P's 500	actual	Underwriters
Student Loan Marketing	9/25/83	$230,000	41%	76%	Goldman Sachs & Co First Boston
Gemini II Inc	2/15/85	200,000	–7	1	Merrill Lynch
Home Fed S&L Assn San Diego	3/30/83	197,272	–80	–73	Shearson/Am Express Merrill Lynch Dean Witter Reynolds
Tribune Co New	10/12/83	187,250	46	81	Salomon Brothers Merrill Lynch
EQK Realty Investors 1	3/ 5/85	171,056	–14	–8	Salomon Brothers Paine Webber Jackson & Curtis
LSI Logic Corp	5/13/83	161,700	–33	–13	Morgan Stanley & Co Hambrecht & Quist
Gulfstream Aerospace Corp	4/ 8/83	152,000	–26	0	Shearson/Am Express
Bowater Inc	5/17/84	131,596	–4	26	First Boston
Adolph Coors Co	6/10/75	127,100	–85	–46	Dillon Read & Co
Diasonics Inc	2/23/83	122,936	–90	–85	F Eberstadt & Co LF Rothschild Hambrecht & Quist
Erbamont NV	6/21/83	122,760	–39	–24	Wertheim & Co
Cetus Corp	3/ 6/81	120,174	–64	–34	Lehman Brothers Kuhn Loeb LF Rothschild
NI Industries Inc	10/27/83	120,000	–5	10	Kidder Peabody & Co Goldman Sachs & Co
ICM Property Investors Inc	1/25/85	115,000	–33	–26	Merrill Lynch
Televideo Sys Inc	3/15/83	112,500	–90	–86	LF Rothschild Robertson Colman Stephens Shearson/Am Express
Pearle Health Svcs[1]	9/16/83	112,200	59	94	William Blair & Co Goldman Sachs & Co
Burlington Coat Factory	6/9/83	112,000	–55	–42	Prudential-Bache
Apple Computer Inc	12/12/80	110,000	–55	–15	Morgan Stanley & Co Hambrecht & Quist
Fortune Sys Corp	3/ 4/83	110,000	–94	–92	First Boston Alex Brown & Sons Montgomery Sec
Reuters Holding Plc	6/ 4/84	107,250	33	76	Merrill Lynch Morgan Stanley & Co
Highland Superstores Inc	5/ 9/85	103,600	13	21	Goldman Sachs & Co EF Hutton
Omnicare Inc	7/17/81	102,000	–77	–59	F Eberstadt & Co LF Rothschild
Americana Hotel & Realty Corp	11/ 5/82	100,000	–47	–19	Dean Witter Reynolds Merrill Lynch Blyth Eastman Paine Webber
Florida Fed S&L Assn	5/26/83	100,000	–24	–2	Kidder Peabody & Co
Strategic Mtg Investments Inc	12/12/84	100,000	–25	–8	Merrill Lynch

[1]Acquired by GrandMet USA.

Penny stocks and other illusions

Trying to make sense out of the penny stock market for investment purposes is a profitless task—as profitless as trying to speculate in them.

For instance, when asked to give us the top penny stock performers ranked against the Standard & Poor's 500, our computer spit out the name of a company that appeared to have gone from 20 cents to more than $18 a share. But a check of this company's Securities & Exchange Commission filings and phone calls to the company and its underwriter revealed it to be a so-called shell, a company name that had been registered publicly in the state of Utah, with no assets and, in fact, no business. Then we discovered that four companies had merged into this shell, with insiders of these companies taking shares and apparently bidding up the price, even while there were no operations.

So, to come up with the table below, we employed various screens on our database and followed up with human effort, attempting to eliminate issues that represent mere manipulation. We found that 125 of the 850 penny stocks appear to have outperformed the Standard & Poor's 500 from the day they came public. Of course, given the high risk factor in this wild market, a truly good performer should have at least doubled the S&P's 500, and only 65 of the 850 issues appear to have accomplished that.

But, again, we can't vouch unqualifiedly for the accuracy of many of the final prices in our penny stock database. Some 400 are listed only through the National Quotation Bureau's pink sheets, in which marketmakers do not have to report volume or price. Call a marketmaker for a bid on a thinly traded offering, and he may well give you one price for 1,000 shares and half of that for 1,000 more. So, if anything, our pink sheet quotes are probably overly generous.

The investment banker who brought out one of the newer penny issues listed here was charged by the SEC with stock manipulation. The bottom ranks of the brokerage firm performance list on page 155 are littered with the names of now-defunct penny stock brokers: Southeast Securities of Florida and Colorado's First Financial Securities, N. Donald & Co. and OTC Net.

You say you know all this, that the way to play this market is by getting in and out fast. Again, getting in is easier than getting out. To whom do you sell the stock? Back to the marketmaker? In the penny stock world, marketmakers have a nasty habit of going out of business because they can't, over an extended period, support the prices of the stock issues that make up a large portion of their net capital position. As the brokers say about penny stock performance: It looks good, but try to sell it.

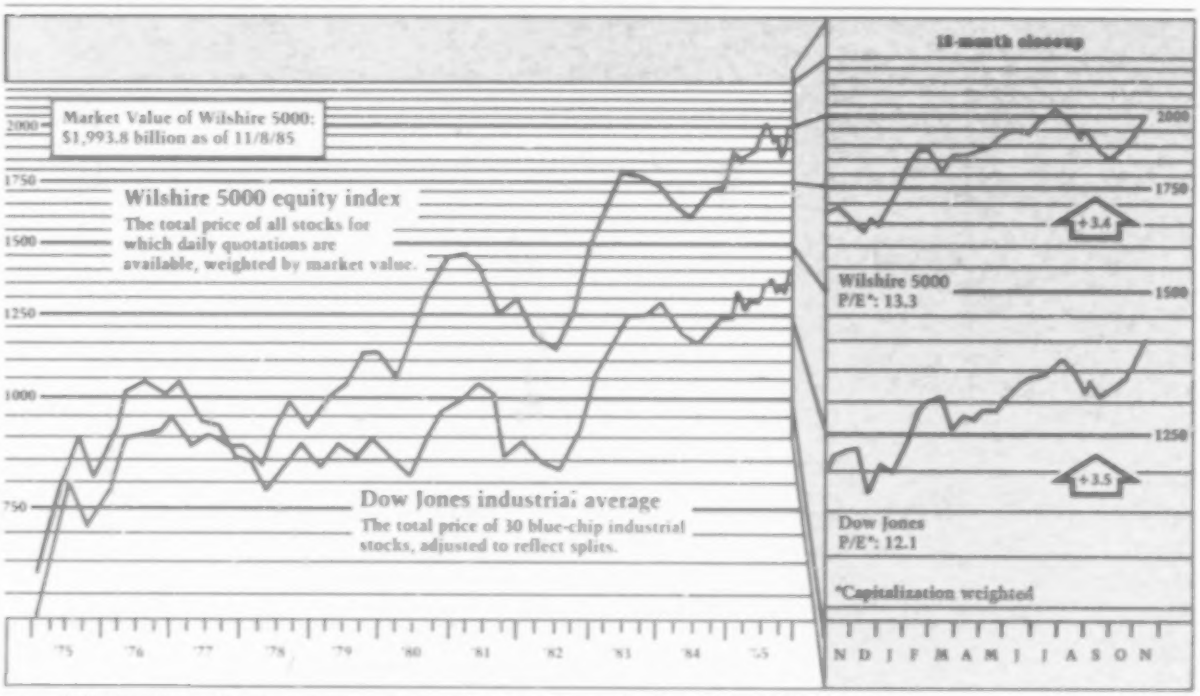
Penny stocks? It's easy enough to lose money in good stocks, so why mess around in this jungle?

Current company name	Date of offering	—% performance— relative to S&P's 500	actual	Offer price	Current value of $100 invested	Underwriters
Icoa Inc	12/ 6/84	4,870%	5,733%	$0.06	$5,833	AAA Capital & Sec
Nastech Pharmaceutical Inc	4/27/84	3,151	3,900	0.01	4,000	J Brooks Securities
Metcom Inc	3/21/85	2,277	2,400	0.01	2,500	Western Capital
Chemex Pharmaceuticals Inc	1/17/75	2,098	9,900	0.10	10,000	United Securities
Media III	3/ 7/84	1,851	2,400	0.01	2,500	Rigel Securities
American Talent Associates	10/ 3/84	1,801	2,150	0.10	2,250	Investors Center
NTN Communications	11/19/84	1,715	1,446	0.05	1,815	Alpine Securities
Tevere	7/27/83	1,545	1,900	0.10	2,000	Am Venture Sec
Med Lab Systems	2/13/85	1,110	1,150	0.01	1,300	Medicorp Inc
Maxxam Corp	10/12/83	656	800	0.25	900	Citiwide Securities
Compusonics	12/ 1/83	523	650	0.02	750	Blinder Robinson
Spearhead Energy[1]	5/30/79	492	725	1.00	825†	J Daniel Bell & Co
Imperial Energy Corp	8/ 8/80	421	900	0.10	1,000	Security Traders Inc
Rocky Mountain Exploration[2]	3/26/82	413	750	0.02	850†	Self
Cheung Labs Inc	3/ 5/85	397	438	1.00	538	GK Scott & Co
Sunergy Communities[3]	1/31/80	360	713	0.50	813†	Wall St West
Info-Data	11/ 1/83	347	450	0.50	550	Citiwide Securities
Paperback Software	1/31/85	326	350	0.10	450	Vanderbilt Sec
Arcadia Petroleum[4]	3/ 3/81	318	320	0.10	420†	Blinder Robinson
Standard Systems & Tech	3/22/82	313	700	0.01	800	Self

[1]Acquired by Universal Fuels [2]Acquired by Carmel Energy. [3]Acquired by River Oaks Industries. [4]Acquired by Kee Exploration.
†Value at merger.

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen


Market Value of Wilshire 5000: $1,993.8 billion as of 11/8/85
Wilshire 5000 equity index
The total price of all stocks for which daily quotations are available, weighted by market value.
Dow Jones industrial average
The total price of 30 blue-chip industrial stocks, adjusted to reflect splits.
2000
1750
1500
1250
1000
750
'75 '76 '77 '78 '79 '80 '81 '82 '83 '84 '85
18-month closeup
+3.4
Wilshire 5000 P/E*: 13.3
+3.5
Dow Jones P/E*: 12.1
*Capitalization weighted
N D J F M A M J J A S O N

Record highs—for whom? The Dow gained 48 points during the last four weeks to break the 1400 threshold. But unlike the Dow, the Nasdaq is 8.8% behind its all-time peak of June 1983. Cheap stocks, in particular, have a lot of catching up to do. The yardsticks below show that over the last 52 weeks shares priced over $25 are up 28.3%, while those priced under $5 gained only 6.7%.

Merger fever has helped keep blue chips in the limelight, but the light may be moving to secondary stocks. In the last four weeks the Nasdaq gained 6.5%, vs. 4.8% for the Dow.

Will the rally continue? Security analysts, as they are wont to do, have been scaling back 1986 earnings estimates *(see p. 254)*. But the downward drift of interest rates and gold prices signals that the market need not be overly concerned about the problem of inflation. The falling dollar may help U.S. exporters, but it might also discourage European stock buyers.

Closeup On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	5.3	5.3	4.8	5.0	4.9	6.5
in last 52 weeks	16.5	18.3	15.2	15.7	10.3	20.2

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	6.0	3.2	8.3	4.4	5.2	5.2	4.5	4.5	7.2	4.7	6.3	3.2
in last 52 weeks	18.7	17.7	28.3	28.1	13.1	24.0	21.8	29.1	28.9	24.8	28.3	6.7

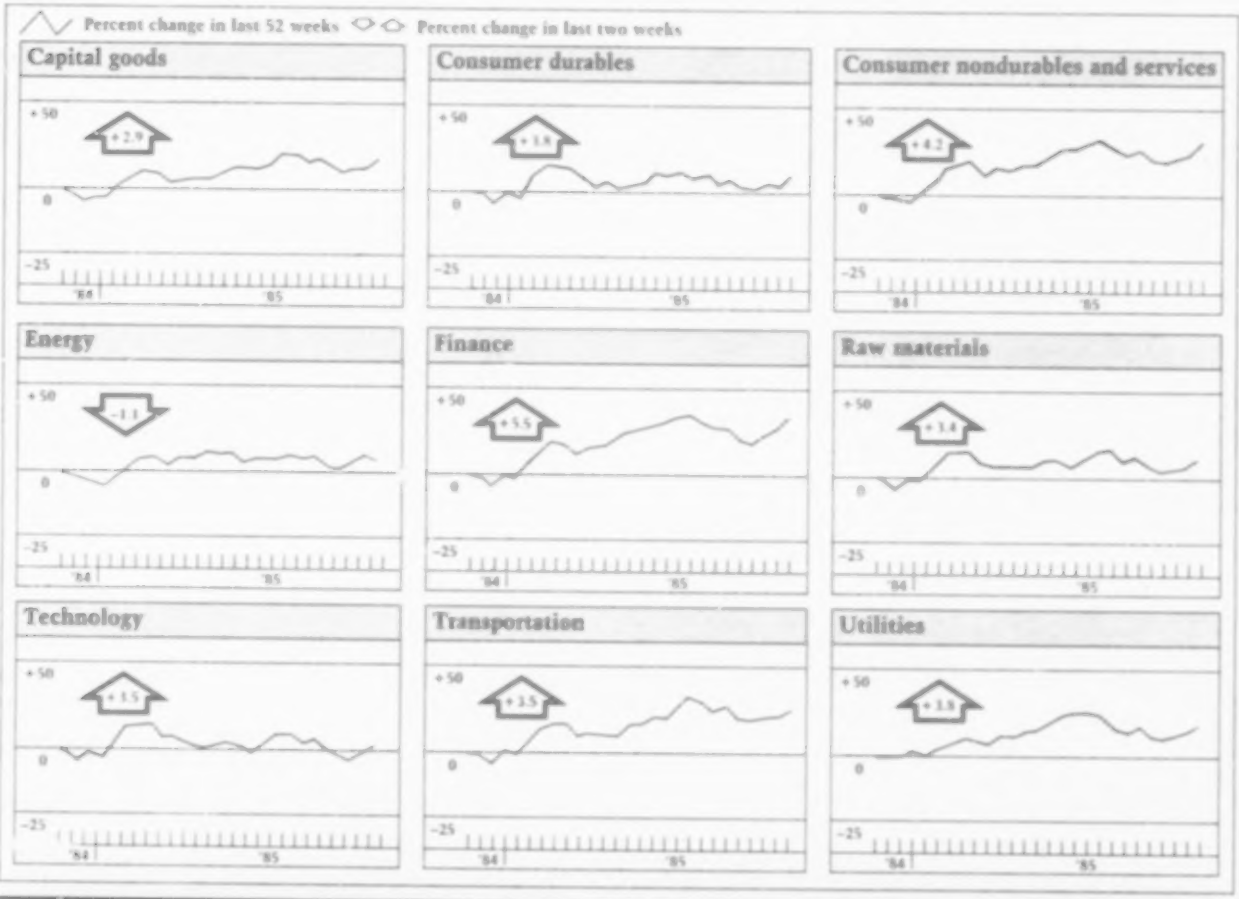
[1]Based on sales
[2]A stock's sensitivity to overall market movement. High volatility issues have wide price fluctuations, low volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 11/8/85. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Consumer stocks on the march. The consumer sectors were among the best performers during the recent two weeks. Consumer nondurables were up 4.2% and consumer durables, 3.8%. Of the nondurables group, U.S. Health Care Systems, a provider of health maintenance programs, was the best large capitalization stock, with a gain of more than 20%. GenCorp, a tire and broadcasting concern, led consumer durables with a 22% gain. GenCorp announced plans to sell several choice broadcasting properties and to close a tire plant.

The only sector to lose ground was the energy group, which was hurt by a 16% decline in Texas Oil & Gas. The merger deal with U.S. Steel proved to offer less than mouth-watering terms.



What The Analysts Think

Down on technology. During the last two weeks analysts made their sharpest cuts in 1985 estimates for technology shares. The tumbling estimates help explain why this group has the poorest 52-week performance—a gain of only 3%. Contrarian note: That much analyst pessimism suggests there could be some buys in technology.

Forecasting the Forbes 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.23	12.4
1985 estimates	3.76	10.7
1986 estimates	4.35	9.2

Rank based on change in estimate	Sector	Estimated 1985 EPS	Estimated 1985 P/E	% change in 1985 estimate in 2 weeks	% change in 1985 estimate in 4 weeks
1	Consumer durables	$4.96	8.1	0.86%	0.47%
2	Utilities	3.44	8.2	-0.22	-0.47
3	Energy	3.65	8.7	-0.25	-0.82
4	Consumer nondurables	2.36	13.7	-0.31	0.60
5	Finance	3.11	11.0	-0.43	-0.67
6	Capital goods	2.51	13.0	-0.85	-2.32
7	Transportation	2.40	11.5	-1.01	-1.97
8	Raw materials	1.77	14.3	-1.09	-3.16
9	Technology	2.53	13.6	-1.53	-3.21

Earnings projections are capitalization weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continuously by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York based brokerage firm.

Note: All data for periods ending 11/8/85. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.